中關村科技租賃股份有限公司

ZHONGGUANCUN SCIENCE-TECH LEASING CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 1601

2019 ANNUAL REPORT

Contents

This annual report was prepared in both Chinese and English versions, where there is a discrepancy between the Chinese and English versions, the English version shall prevail.

Corporate Profile

Founded in 2012, Zhongguancun Science-Tech Leasing Co., Ltd. is a pioneer and the most dedicated finance lease company in serving technology and new economy companies in China in terms of the percentage of revenue in 2018 generated from technology and new economy companies. As the sole finance lease platform under ZGC Group, the Company offers efficient finance lease solutions and a variety of advisory services to satisfy technology and new economy companies' needs for financial services at different stages of their growth. The Company's finance lease solutions primarily take the form of direct lease and sale-and-leaseback, and, in certain cases, also incorporate various functions designed to suit different business needs for its customers. The leased assets in the finance lease solutions typically include equipment, terminals, infrastructures, electronic devices, and assembly lines. The Company also delivers a variety of advisory services, including policy advisory and management and business consulting, to help its customers achieve rapid growth.

The Company is approved by the Ministry of Commerce of the People's Republic of China serving more than five technology and new economy sectors. As of December 31, 2019, the Company had served more than 930 lessees, more than 95% of which were technology and new economy companies, and had launched more than 1,500 finance lease projects with an aggregate principal amount of approximately RMB18.2 billion.

The Company has also been widely and well recognized in China's finance lease industry. In 2017, the Company was recognized as the Fastest Growing Finance Lease Company of the Year (年度最具成長性租賃公司) by the Financial News; in 2015 and 2016, the Company was recognized as the Finance Lease Company of the Year (年度租賃公司) by Leasing Business Committee of China Association of Enterprises with Foreign Investment (CAEFI) (中國外商投資企業協會中國外商租賃業委員會), which is the leading industry association in China's financial leasing industry; in 2017, Mr. HE Rong feng, the general manager of the Company, was recognized as the "Person of the Year for Finance Leasing" (融資租賃年度人物) by the Leasing Business Committee of CAEFI; in 2019, the Company was recognized as the 2019 China financial leasing list · Company of the Year (2019中國融資租賃榜•年度公司) by the Leasing Business Committee of CAEFI.

The H Shares of the Company were successfully listed on the Main Board of the Stock Exchange on January 21, 2020, which enabled the Company to access the international capital market and created a platform for its rapid development.

Corporate Profile

MILESTONES

The following table illustrates the key milestones of our business development.

Time	Milestone
November 2012	Our predecessor, Zhongguancun Science-Tech Leasing (Beijing) Co., Ltd. (中關村科技租賃(北京)有限公司), was established in Beijing.
July 2013	We completed our first financial leasing business with a lease principal amount at RMB20 million.
December 2013	Our lease principal exceeded RMB600 million and recorded profits for the year of 2013.
August 2015	We issued our Phase 1 ABS as the first ABS with the concept of "science-technology leasing" in the PRC.
September 2017	Our registered capital was increased to RMB1 billion.
December 2017	Our accumulative lease principal exceeded RMB10 billion.
	We are recognized as the "Fastest Growing Finance Lease Company of the Year (年度最具成長性租賃公司)" by Financial News (《金融時報》).
December 2018	We launched our principal client credit rating model.
March 2019	The accumulative number of our lessees exceeded 700 and our accumulative lease principal reached RMB14.6 billion.
August 2019	Our Company was reorganized into a joint stock company with limited liability, and was renamed as Zhongguancun Science-Tech Leasing Co., Ltd.
January 2020	The H Shares of the Company were successfully listed on the Main Board of the Stock Exchange.

Definitions

In this annual report, unless the context otherwise requires, the following expressions shall have the following meanings.

"ABS"	assets-backed securities
"AGM"	the 2019 annual general meeting of the Company to be held on June 24, 2020
"Articles" or "Articles of Association"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"Board Committees"	collectively, Audit Committee, Nomination Committee, Remuneration Committee and Risk Control Committee
"Board of Supervisors"	the board of supervisors of the Company
"CG Code"	the "Corporate Governance Code" as contained in Appendix 14 to the Listing Rules
"Chairman"	the chairman of the Board
"Chaoyang SCOMC"	Beijing Chaoyang State-owned Capital Operation and Management Center (北京市朝陽區國有資本經營管理中心), a state-owned enterprise established under the laws of the PRC on May 27, 2009 and also a substantial shareholder of the Company
"China" or "PRC"	the People's Republic of China, which for the purpose of this annual report and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"close associate"	has the meaning ascribed to it in the Listing Rules

Definitions

"Company", "Group" or "we"	Zhongguancun Science-Tech Leasing Co., Ltd. (中關村科技租賃股份有限公司), a joint stock company incorporated under the laws of the PRC with limited liability on August 16, 2019, or its predecessor
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to ZGC Investment Center, ZGC Group and ZGC Finance
"Director(s)"	the director(s) of the Company
"Domestic Share(s)"	the domestic share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as fully paid in RMB
"H Share(s)"	the overseas listed foreign share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in HK dollars and listed on the Stock Exchange
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing"	listing of the H Shares on the Main Board of the Stock Exchange
"Listing Date"	January 21, 2020, on which the H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules

Definitions

"Nanshan Capital"	Nanshan Group Capital Investment Co., Ltd. (南山集團資本投資有限公司), a company incorporated under the laws of the PRC with limited liability on November 18, 2011 and also a substantial shareholder of the Company
"Nomination Committee"	the nomination committee of the Company
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"Prospectus"	the prospectus of the Company dated December 31, 2019
"Remuneration Committee"	the remuneration committee of the Company
"Risk Control Committee"	the risk control committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	collectively, the Domestic Share(s) and the H Share(s)
"Shareholder(s)"	the holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company

Definitions

"Wangjing Development"	Beijing Chaoyang District Wangjing Xinxing Industry Zone Comprehensive Development Company (北京望京新興產業區綜合開發有限公司), a company incorporated under the laws of the PRC with limited liability on July 11, 1994, which is wholly owned by Chaoyang SCOMC and also a substantial shareholder of the Company
"ZGC Finance"	Beijing Zhongguancun Finance Group Co., Ltd. (北京中關村科技創業金融服務集團有限公司), a company incorporated under the laws of the PRC with limited liability on February 24, 2009 and also one of the Controlling Shareholders
"ZGC Group"	Zhongguancun Development Group Co., Ltd. (中關村發展集團股份有限公司), a company incorporated under the laws of the PRC with limited liability on March 31, 2010 and also one of the Controlling Shareholders
"ZGC Investment Center"	Beijing Zhongguancun Development & Investment Center (北京中關村發展投資中心), a company incorporated under the laws of the PRC with limited liability on November 27, 2013 and also one of the Controlling Shareholders
"%"	per cent

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Mr. DUAN Hongwei
Mr. LOU Yixiang
Mr. ZHANG Shuqing
Mr. LI Peng

Executive Directors

Mr. HE Rongfeng
Mr. HUANG Wen

Independent Non-executive Directors

Mr. CHENG Dongyue
Mr. WU Tak Lung
Ms. LIN Zhen

BOARD OF SUPERVISORS

Mr. ZHANG Jian
Mr. TIAN Anping
Mr. FANG Fang
Mr. LONG Limin
Mr. TONG Chao
Ms. ZHOU Di
Ms. HAN Nana

COMPANY SECRETARY

Mr. GAO Wei *(FCIS, FCS (PE))*

AUTHORISED REPRESENTATIVES UNDER THE LISTING RULES

Mr. HE Rongfeng
Mr. GAO Wei

AUDIT COMMITTEE

Mr. WU Tak Lung *(Chairman)*
Mr. CHENG Dongyue
Ms. LIN Zhen
Mr. LOU Yixiang
Mr. LI Peng

REMUNERATION COMMITTEE

Mr. CHENG Dongyue *(Chairman)*
Mr. WU Tak Lung
Ms. LIN Zhen
Mr. DUAN Hongwei
Mr. HE Rongfeng

NOMINATION COMMITTEE

Mr. DUAN Hongwei *(Chairman)*
Mr. CHENG Dongyue
Mr. WU Tak Lung
Ms. LIN Zhen
Mr. HE Rongfeng

RISK CONTROL COMMITTEE

Ms. LIN Zhen *(Chairwoman)*
Mr. CHENG Dongyue
Mr. WU Tak Lung
Mr. ZHANG Shuqing
Mr. HUANG Wen

AUDITOR

KPMG
8th Floor, Prince's Building
10 Chater Road, Central
Hong Kong

Corporate Information

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

REGISTERED OFFICE

1610, 16/F
Building 101 (2-16/F)
No. 21 Rongda Road
Chaoyang District, Beijing
PRC

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Floor 5 & 6, Suite 7, Courtyard 2
No. 1 West Third Ring North Road
Haidian District, Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

Bank of Nanjing
Tower A, Wanliu Xingui Building
No. 28 Wanquanzhuang Road
Haidian District, Beijing
PRC

China Everbright Bank
Floor 1, Science and Technology Trade
Center Office Building
No. 18 Zhongguancun Avenue
Haidian District, Beijing
PRC

Bank of Jiangsu
Room 106, Floor 1, Suit 4, Courtyard 10
Ronghua South Road
Beijing Economic-Technological
Development Area
Daxing District, Beijing
PRC

LEGAL ADVISOR

As to Hong Kong Law
Wilson Sonsini Goodrich & Rosati
Suite 1509, 15/F, Jardine House
1 Connaught Place, Central
Hong Kong

As to PRC Law
King & Wood Mallesons
18th Floor, East Tower
World Financial Center
1 Dongsanhuan Zhonglu
Chaoyang District, Beijing
PRC

H SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

STOCK CODE

1601

WEBSITE

www.zgclease.com

Key Financials

For the year ended December 31, 2019, the revenue amounted to approximately RMB515.3 million, representing an increase of approximately 24.8% as compared with that of approximately RMB412.8 million for the year ended December 31, 2018.

For the year ended December 31, 2019, the profit before taxation amounted to approximately RMB184.9 million, representing an increase of approximately 16.4% as compared with that of approximately RMB158.9 million for the year ended December 31, 2018.

For the year ended December 31, 2019, the profit for the year amounted to approximately RMB138.3 million, representing an increase of approximately 16.2% as compared with that of approximately RMB119.0 million for the year ended December 31, 2018.

As of December 31, 2019, the total assets amounted to approximately RMB6,989.0 million, representing an increase of approximately 17.1% as compared with that of approximately RMB5,969.0 million as of December 31, 2018.

As of December 31, 2019, the total shareholders' equity amounted to approximately RMB1,392.3 million, representing an increase of approximately 8.1% as compared with that of approximately RMB1,287.8 million as of December 31, 2018.

For the year ended December 31, 2019, the return on average equity was 10.3%.

For the year ended December 31, 2019, the return on average assets was 2.1%.

Chairman's Statement

Dear Shareholders,

As the Chinese saying goes, "Those who go straight ahead should arrive destinations; and those who strive hard should achieve goals." Beijing's Zhongguancun, known as China's "Silicon Valley", has gathered a galaxy of high-tech talents, leading the most active and prosperous spirit of innovation in China. In 2012, we established our Group here in Zhongguancun, with the mission to offer efficient finance lease solutions and financial services to China's technology and new economy companies, so as to help tech innovators realize their entrepreneurial dreams. We stayed committed to our founding aspirations and made dedicated efforts ever since while marching toward a broader stage. The Company's H shares have been successfully listed on the Main Board of the Stock Exchange on January 21, 2020, which enables us to access the international capital market and thereafter opens a new chapter in our development.

"From whichever direction the winds leap, we remain strong, though dealt many blows". In the face of changes arising from downward economic pressure, substantial financial risks and stringent financial regulation in 2019, we took proactive measures to tackle the complex and difficult situation, and achieved high-quality and rapid development in terms of remarkable results in assets scale, business performance, risk management and corporate governance. Our return on average assets, return on equity and non-performing asset ratio in 2019 were 2.1%, 10.3% and 1.3%, respectively, maintaining healthy and sustainable growth momentum.

We believe that the winners must have the courage to break new ground, and the pioneers always make bold changes and innovations. The remarkable achievements we have made in 2019 are attributed to our solid progress in business innovation. First, for business model innovation, we adopted a customer-oriented business model to offer efficient and customized finance lease solutions, though primarily took the forms of direct lease and sale-and-leaseback, in certain cases, also incorporated various functions such as project financing and new product promotion. In addition to satisfying customers' funding needs, our customized solutions helped optimize their business models from manufacturing and selling products to providing services and therefore moved higher up the industrial chain. We also further perfected our distinctive service system, delivered a variety of advisory services such as policy advisory and management and business consulting, to help our customers get access to more information on policy support, industrial development, financial support and human resources, and empower the development of technology and new economy companies. The business model innovation helped the Group acquire new competitive advantages and cultivate new business growth drivers. Second, for risk management innovation, based on comprehensive analysis of technology and new economy companies, we developed the risk management idea of attaching more importance to customers'

Chairman's Statement

business data and growth potential while weakening financial guarantee to lower their financing threshold, which has helped us build a growing and high-quality customer base. Thanks to the application of fintech, we have achieved data collection, data exchange between the Group's business data and the big data, as well as the data application in the entire leasing process. Leveraging our principal credit rating model and lease receivable rating model, we could efficiently select high-growth technology and new economy companies in accordance with the Group's strategic position. Third, for the innovation of systems and mechanisms, we explored the path forward for strategic planning with a global perspective and established the corporate governance structure up to the standards of listed companies. Meanwhile, we stressed the prominent importance in keeping organizational health, implemented the plan for the cultivation of cadres and young talents, and established a performance-based organization management system, to gradually improve the human resources management based on market principles.

Climbing upward, we step further; venturing midstream, we struck the water. While the successful listing of our H shares marks a new start, there are still profound and complicated changes ahead in the external environment and domestic economic situation. Given the uncertainties over the global economy, ongoing China-US trade friction, increasing downward pressure on the domestic economy and the outbreak of COVID-19, China may attach greater importance to policy support for technology and new economy industries, especially the strategic emerging industries crucial to China's core competitiveness, to help the domestic economy gain greater vitality, which may bring new opportunities for technology and new economy companies. Looking forward in 2020, we will always stay true to our original aspirations and founding mission, continue to forge ahead in serving the development of technology and new economy industries, strive to become the leading science-tech financial leasing company in China, and create greater value for shareholders, our staff and the society.

Chairman of the Board

DUAN Hongwei
March 30, 2020

General Manager's Statement

Dear Shareholders,

China's external and domestic environment underwent profound changes in 2019, in terms of the China-US trade friction and the increasing downward pressure on the domestic economy. As the Chinese economy is shifting from high-speed growth to high-quality development, a variety of enterprises have been facing the challenges of business transformation. Technology and new economy companies with flexible systems and mechanisms have been playing an increasingly robust role in economic development, and their demand for financial services should maintain a good growth momentum.

Looking back on the year of 2019, the Group adhered to the strategic position of serving China's technology and new economy companies, implemented the strategic decision on strengthening business specialization in technology and new economy industries and stressing development of intelligent technologies. We forged ahead and overcame difficulties, delivered outstanding results again in 2019. As at the end of 2019, the Group had maintained steady growth in business performance. The Company's total assets reached RMB6.989 billion, representing a year-on-year increase of 17.1%; the revenue amounted to RMB515.3 million, representing a year-on-year increase of 24.8%; the profit for the year was RMB184.9 million, representing a year-on-year increase of 16.4%. We remained dedicated to offering finance lease solutions and advisory services to technology and new economic companies, mostly in the five industries namely big data, eco-solutions, life sciences & healthcare, intelligent manufacturing and internet-based products & services industries, and achieved a lease principal amount of RMB18.2 billion. While focusing on business structure optimization and market expansion, we attached much importance to risk management. The non-performing asset ("**NPA**") ratio of the Group remained stable, and the overall asset quality was safe and controllable, despite the changes in external environment. As of December 31, 2019, the NPA ratio was 1.3%, which has stayed low for three consecutive years; the ratio of allowances for impairment losses to finance lease receivables was 158.0%, 6.8 percentage points higher than that as of December 31, 2018. The Group's risk management capabilities have been enhanced effectively. Meanwhile, our operating capacity continued to increase. With the improvement of governance structure, the Group's leasing project management, risk management and leased asset management capabilities have been further enhanced. The upgrading of information technology system and improvement of human resources management have provided a strong guarantee for the Group's development.

General Manager's Statement

For the past year, the senior management has centered efforts on the fulfillment of goals and tasks set by the Board, worked holistically with targeted measures and full force. First, we adhered to serving technology and new economy companies with great efficiency, further demonstrated our brand influence in the big data, eco-solutions, life sciences & healthcare, intelligent manufacturing and internet-based products & services industries, from which more than 95% of the Group's revenue was generated. We made continuous efforts to strengthen business specialization, cultivated a number of customers that set the pace for the technology and new economy industries thanks to their strong growth prospect. Second, we adhered to innovating the business model of combing financial leasing solutions with distinctive value-added services for customers and investment in those of high growth and high value. In terms of services, we delivered a variety of advisory services such as policy advisory and management and business consulting, and launched "Science-Tech Leasing Business School" to help our customers analyze various aspects of business management, so as to facilitate their growth and create business opportunities. In terms of investment, we made investment to Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. (北京中諾同創投資基金管理有限公司) in 2019, which has raised RMB200 million at the first phase, selected over 30 high-quality projects and made corresponding investment decisions. Third, we adhered to prioritizing customer base expansion and efficiency improvement. We further strengthened the cooperation with investment institutions, industry associations and alliances to deploy a variety of marketing and promotional activities as part of our overall strategy to expand customer base, including customer sharing sessions and industry conferences and contests. For example, in 2019, we co-organized "Zhongguancun International Advanced Technology Innovation Competition" (中關村國際前沿科技創新大賽), "'Maker in Beijing' Innovation and Entrepreneurship Competition" ("創客北京2019"創新創業大賽) and the "Fifth Environmental Protection Innovation and Entrepreneurship Competition" (第五屆環保創新創業大賽), which attracted companies with leading technologies and innovative capabilities in the technology and new economy industries, such as next generation information technology, biomedicine, clean heating, intelligent logistics and high-end manufacturing. We established contact with 180 potential customers, some of which became our customers and entered into finance lease agreements with us subsequently. In 2019, the Group attracted 288 new customers and achieved a lease principle amount of RMB3.197 billion. In terms of efficiency, we promoted specialization in marketing, project assessment and asset management, to ensure that the operational workflow we consistently applied to each leasing project be completed within 20 weekdays. In addition, we issued the "Guidelines for the Fast-track Operational Workflow" and completed a three-year action plan for data-driven 2022, effectively improved operation and management efficiency through further optimization of operational workflow. Fourth, we adhered to strengthening intelligent risk management. Leveraging our principal credit rating model and lease receivable rating model, we successfully finished the rating of 325 leasing projects and selected customers with the most investment value. Our lease business operation system and risk management system, with leading competitiveness, has achieved data exchange between the Group's business data and the big data, thus our customer assets could be transformed into data assets in multiple dimensions, laying a solid foundation for our innovative business model. We established the risk management structure of the entire lease lifecycle on the basis of big data application, and launched scenario-based risk assessment products, to provide strong technical support for business expansion in more regions.

General Manager's Statement

Looking to the future, we believe that despite certain negative influences on the short-term growth of the Chinese economy, the outbreak of COVID-19 will not affect the nation's long-term outlook, as the long-term positive trend of the economy has not changed and people's dream to live a happy life has always been our inexhaustible source of motivation. In response to the call of the Central Committee of the Communist Party of China and the State Council, the Group rolled out a series of measures under the strong leadership of the Board, to bail small and medium-sized technology and new economy companies out of their temporary difficulties. Noting that technology and new economy companies need to adapt business models to the changes brought about by the outbreak of novel coronavirus, we will closely follow the trend and keep to the right direction.

Our ancestors told us that as heaven maintains vigor through movement, a gentleman should constantly strive for self perfection. For the year ahead, the Group will continue to promote the full integration of technology with finance to help entrepreneurs achieve their aspirations, leveraging strengths in innovation-driven development in terms of business model innovation, risk management innovation, systems and mechanisms innovation, and financial technology innovation. While empowering the technology and new economy companies, we will make best endeavors to contribute to the implementation of the nation's innovation-driven development strategy.

Lastly, on behalf of all staff of the Company, I would like to express my sincere gratitude to our customers, partners and shareholders who have supported and trusted in us throughout the years.

General Manager of the Company

何融峰

HE Rongfeng

March 30, 2020

Profile of Directors, Supervisors and Senior Management

DIRECTORS

The Board currently consists of nine Directors, comprised of four non-executive Directors, two executive Directors and three independent non-executive Directors. The following table sets forth information regarding the Directors.

Name	Age	Position	Date of Appointment as Director
Non-executive Directors			
Mr. DUAN Hongwei	56	Chairman and non-executive Director	August 13, 2019
Mr. LOU Yixiang	44	Non-executive Director	August 13, 2019
Mr. ZHANG Shuqing	46	Non-executive Director	August 13, 2019
Mr. LI Peng	59	Non-executive Director	January 29, 2018
Executive Directors			
Mr. HE Rongfeng	51	Executive Director and general manager	August 13, 2019
Mr. HUANG Wen	45	Executive Director and deputy general manager	August 13, 2019
Independent Non-executive Directors			
Mr. CHENG Dongyue	60	Independent non-executive Director	September 20, 2019
Mr. WU Tak Lung	54	Independent non-executive Director	August 29, 2019
Ms. LIN Zhen	36	Independent non-executive Director	August 29, 2019

Non-executive Directors

Mr. DUAN Hongwei (段宏偉), aged 56, is the chairman of the Board and non-executive Director. Mr. Duan has been serving as an executive director and the general manager of ZGC Finance since March 2019, and he also served as its general manager from October 2010 to June 2012, primarily responsible for general management and operation of the company. He has been serving as an executive director of Zhongguancun Lingchuang Financial Information Services Co., Ltd. (中關村領創金融信息服務有限公司) since March 2018, primarily responsible for overall operation and management. He served as the chairman of Beijing Zhongguancun Technology Financing Guarantee Co., Ltd. (北京中關村科技融資擔保有限公司) from November 2010 to October 2019, primarily responsible for management of the board of directors. He has served as the chairman of Beijing Zhongguancun Dengling Investment Fund Management Co., Ltd. (北京中關村瞪羚投資基金管理有限公司) since July 2011. From April 2005 to October 2010, he served in several positions in the Administrative Committee of Zhongguancun Science Park, including the director of the industry development department and the director of the finance department.

Mr. Duan graduated from Zhejiang University (浙江大學) with a bachelor's degree in engineering in July 1985. He obtained a master's degree in engineering from Tsinghua University (清華大學) in September 2003. He studied at China Europe International Business School (中歐國際工商學院) from September 2004 to September 2006 and obtained a degree of EMBA. He obtained the certificate of senior engineer granted by Beijing Senior Professional Technical Position Review Committee (北京市高級專業技術職務評審委員會) in October 1997.

Mr. LOU Yixiang (婁毅翔), aged 44, is a non-executive Director. Mr. Lou has served as a director of Beijing Zhongguancun Technology Financing Guarantee Co., Ltd. since February 2019. He has served as a director of Beijing Zhongguancun Electronic City Construction Co., Ltd. (北京中關村電子城建設有限公司) since March 2018. He has successively served as a vice director and director of the strategy management department (previously known as strategy development department) of ZGC Group since April 2015, primarily responsible for corporate strategies development. From July 2003 to May 2015, he served in several positions in local government institutions including a vice director of the integration office of national economy in Beijing Municipal Commission of Development and Reform and principal staff member (主任科員) of the general office under the research department of Beijing municipal government.

Mr. Lou graduated from Renmin University of China (中國人民大學) with a bachelor's degree in economics in July 1999 and with a master's degree in July 2003, respectively.

Profile of Directors, Supervisors and Senior Management

Mr. ZHANG Shuqing (張書清), aged 46, is a non-executive Director. Mr. Zhang has served in several positions at ZGC Group since April 2012. He has been the vice general manager of the technology finance department of ZGC Group since June 2018, primarily responsible for overall management of the department. Prior to that, Mr. Zhang served as the manager of the innovation service division under the technology finance department of ZGC Group from July 2014 to June 2018, and served as the director of the financial services department of ZGC Group from April 2012 to July 2014. Mr. Zhang has also served as a director of several of ZGC Group's subsidiaries, including Beijing Zhongguancun Technology Financing Guarantee Co., Ltd. (北京中關村科技融資擔保有限公司) since May 2014, Beijing Oriental Yonghe Culture Investment Co., Ltd. (北京東方雍和文化創意投資有限公司) since September 2015 and Zhongguancun VC Development Center (北京中關村創業投資發展有限公司) since February 2016. Mr. Zhang served as the chairman of Beijing Zhongguancun Microcredit Co., Ltd. (北京市中關村小額貸款股份有限公司) from June 2017 to November 2018, and has been serving as a director and general manager of Beijing Qiyuan Capital Market Development Service Co., Ltd. (北京啟元資本市場發展服務有限公司), an associated company of ZGC Group, since June 2018, primarily responsible for overall operation and management of the company. From January 2010 to May 2012, he was a postdoctoral research fellow at the mobile station of postdoctoral scientific researchers at Tsinghua University School of Public Policy and Management (清華大學公共管理博士後科研流動站).

Mr. Zhang obtained a master of laws degree and doctor of laws degree from Southwest University of Political Science and Law (西南政法大學) in June 2006 and January 2010, respectively. He obtained the legal professional qualification certificate granted by the Ministry of Justice in February 2006.

Mr. LI Peng (李鵬), aged 59, is a non-executive Director. Mr. Li has been serving as a deputy general manager of Wangjing Development since October 2012. Mr. Li served as the general manager of Beijing Wangjing Shi'anke Industry and Trade Center (北京市望京實安科工貿中心), a subsidiary of Wangjing Development, from December 2007 to February 2014.

Mr. Li graduated from Beijing Graduate School of China University of Mining and Technology (中國礦業大學北京研究生部) with a master's degree in engineering in January 1992.

Executive Directors

Mr. HE Rongfeng (何融峰), aged 51, is an executive Director and the general manager of the Company. Mr. He has around 15 years of experience in finance leasing and corporate management. He has been serving as a director of Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. (北京中諾同創投資基金管理有限公司) since April 2019, and as a director of Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd. (北京中關村協同創新投資基金管理有限公司) since July 2016. Prior to joining the Company, Mr. He served as the deputy general manager of China KangFu International Leasing Co., Ltd. (中國康富國際租賃股份有限公司), a company whose shares are quoted on National Equities Exchanges and Quotations (stock code: 833499), from March 2005 to January 2009. He then served as the general manager of China KangFu International Leasing Co., Ltd. from February 2009 to December 2012, responsible for the overall operation and management of the company.

Mr. He graduated from Xiangtan University (湘潭大學), majoring in mechanical engineering and obtained a bachelor's degree in engineering in June 1990.

Mr. HUANG Wen (黃聞), aged 45, is an executive Director and deputy general manager of the Company. Mr. Huang joined the Company in April 2013 as the general manager assistant, then has been serving as a deputy general manager of the Company since December 2014. Mr. Huang has around 13 years of experience in corporate management. Prior to joining the Company, Mr. Huang served as the general manager of Beijing region of Ping An Pratt & Whitney Finance Guarantee Co., Ltd. (平安普惠融資擔保有限公司, previously known as Fudeng Investment Credit Guarantee Co., Ltd. (富登投資信用擔保有限公司)) from August 2011 to January 2013. He served as a deputy general manager in Tianjin Bohai Finance Guarantee Co., Ltd. (天津渤海融資擔保有限公司) from June 2010 to July 2011. Mr. Huang served as the vice president of Zhongyuan Guoxin Credit Guaranty Co., Ltd. (中元國信信用擔保有限公司) from January 2009 to January 2010, prior to which he served as the deputy manager of its guarantee department from September 2004 to September 2006.

Mr. Huang graduated from Capital University of Economics and Business (首都經貿大學) with a bachelor's degree in economics in July 1997. He further obtained a master's degree in business administration from Tsinghua University (清華大學) in July 2004.

Profile of Directors, Supervisors and Senior Management

Independent Non-executive Directors

Mr. CHENG Dongyue (程東躍), aged 60, is an independent non-executive Director. Mr. Cheng has extensive working experience in finance lease industry. He has been serving as the chairman of Finance Leasing Research Center of Zhejiang University (浙江大學融資租賃研究中心) since March 2017. He served as the chairman of the board and general manager of Guangzhou Yuexiu Finance Leasing Co., Ltd. (廣州越秀融資租賃有限公司) from May 2012 to June 2015, primarily responsible for overall management of the company, and during the same period, he also served as a deputy general manager of Guangzhou Yuexiu Finance Holding Co., Ltd. (廣州越秀金融控股集團有限公司), primarily responsible for finance leasing business. He served as the general manager of Bank of Communications Finance Leasing Co., Ltd. (交銀金融租賃有限責任公司) from December 2007 to July 2010, primarily responsible for overall management of the company.

Mr. Cheng graduated from Zhongnan University of Economics and Law (中南財經政法大學), majoring in business economics, and obtained a master's degree in economics in October 1986. He also obtained a doctor's degree in management from Zhejiang University (浙江大學) in June 2005.

Mr. WU Tak Lung (吳德龍), aged 54, is an independent non-executive Director. Mr. Wu has served as an independent non-executive director of each of the following companies listed on the Stock Exchange: (1) Beijing Media Corporation Limited (stock code: 1000), (2) China Machinery Engineering Corporation (stock code: 1829), (3) Sinomax Group Limited (stock code: 1418), (4) Kam Hing International Holdings Limited (stock code: 2307), and (5) Henan Jinma Energy Company Limited (stock code: 6885).

Save as disclosed above, Mr. Wu held several directorship positions in the following listed companies in the last three years: (1) First Tractor Company Limited (a company listed on the Stock Exchange and Shanghai Stock Exchange), (2) Olympic Circuit Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange), (3) Huarong Investment Stock Corporation Limited (a company listed on the Stock Exchange), and (4) Sinotrans Shipping Limited (a company listed on the Stock Exchange and was delisted in January 2019).

Mr. Wu was awarded the bachelor's degree of business administration in accounting by the Hong Kong Baptist University and the master's degree of business administration (MBA) jointly by the University of Manchester and the University of Wales. He had worked in an international accounting firm, Deloitte Touche Tohmatsu, for five years, and was then employed by several listed and private companies in Hong Kong as head of corporate finance and executive director.

Mr. Wu is a member of Hong Kong Institute of Certified Public Accountants, a fellow member of Hong Kong Securities and Investment Institute, the Association of Chartered Certified Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Chartered Secretaries.

Ms. LIN Zhen (林禎), aged 36, is an independent non-executive Director. Ms. Lin is a partner at the Shanghai office of Grandall Law Firm (國浩律師事務所) since June 2012, responsible for providing professional legal services mainly with respect to corporate and securities law. Prior to that, she successively served as a legal assistant and a lawyer at Grandall Law Firm since July 2005.

Ms. Lin graduated from East China University of Political Science and Law (華東政法大學) with a bachelor's degree in law in July 2005. She obtained a master's degree in international and comparative law from Illinois Institute of Technology Chicago-Kent College of Law in May 2010. She was accredited as a PRC lawyer by Shanghai Municipal Bureau of Justice in December 2006.

SUPERVISORS

The following table sets forth information regarding the Supervisors.

Name	Age	Position	Date of Appointment as Supervisor
Mr. ZHANG Jian	48	Chairman of the board of Supervisors	August 13, 2019
Mr. TIAN Anping	40	Supervisor	August 13, 2019
Mr. FANG Fang	39	Supervisor	August 13, 2019
Mr. LONG Limin	51	Supervisor	August 13, 2019
Mr. TONG Chao	41	Supervisor	August 13, 2019
Ms. ZHOU Di	42	Supervisor	August 13, 2019
Ms. HAN Nana	37	Supervisor	August 13, 2019

Profile of Directors, Supervisors and Senior Management

Mr. ZHANG Jian (張健), aged 48, is the chairman of the board of Supervisors. Mr. Zhang has been the director of the capital operation department of ZGC Group since December 2015, prior to which he served as the vice director of this department from November 2012. Mr. Zhang has also served in several of ZGC Group's subsidiaries, including as a director of Beijing Shichuang High-tech Development Co., Ltd. (北京實創高科技發展有限責任公司) since January 2018, as a director of Beijing Oriental Yonghe Culture Investment Co., Ltd. (北京東方雍和文化創意投資有限公司) since September 2015, and as a director of Beijing Zhongguancun Yanqing Park Construction and Development Co., Ltd. (北京中關村延慶園建設發展有限公司) since August 2014. Prior to joining ZGC Group, he served in several positions at Bozheng Capital Investment Co., Ltd. (博正資本投資有限公司) from March 2011 to August 2012, including the vice president and senior vice president of the business department and vice general manager. From January 2005 to February 2011, he served as the vice general manager of the assets management department and the board secretary of Cernet Corporation (賽爾網絡有限公司).

Mr. Zhang graduated from Nankai University (南開大學) with a bachelor's degree in international economics in July 1993. He obtained a master's degree in business administration and doctoral degree in management from Tsinghua University School of Economics and Management (清華大學經濟管理學院) in July 1999 and January 2005, respectively.

Mr. TIAN Anping (田安平), aged 40, is a Supervisor. Mr. Tian has served in several positions in Chaoyang SCOMC since August 2011, including the vice director of general matter office and principal of Communist Party of China ("**CPC**") related affairs, and is currently the director of the Party-masses work department, primarily responsible for CPC-related affairs. From December 2017 to August 2019, Mr. Tian served as a director of the Company. From September 2001 to August 2011, he served in Beijing Jinchaoyang Commerce & Trade State-owned Asset Operation Company (北京金朝陽商貿國有資本運營公司), primarily responsible for corporate administrative management.

Mr. Tian graduated from Beijing Technology and Business University (北京工商大學), majoring in management engineering, and obtained a bachelor's degree in engineering in June 2001.

Mr. FANG Fang (方放), aged 39, is a Supervisor. Mr. Fang has been serving in several positions in Nanshan Capital since July 2016 and currently is a director and the general manager of Nanshan Capital, primarily responsible for overall operation and management. He has been serving as a director of Zhuhai Hengqin Nanshan Kaiyuan Assets Management Co., Ltd. (珠海橫琴南山開源資產管理有限公司) since October 2017. Prior to joining Nanshan Capital, Mr. Fang served at Ministry of Foreign Affairs of the PRC from August 2004 to July 2016, primarily responsible for financial matters.

Mr. Fang graduated from Shandong University of Finance (山東財政學院), majoring in financial management, and obtained a bachelor's degree in management in July 2004.

Mr. LONG Limin (龍利民), aged 51, is a Supervisor. Mr. Long has served as a director and deputy general manager of Beijing Originwater since December 2018, prior to which he served as the director of operation planning center and director of price quotation and procurement department in Beijing Originwater from December 2013. He served as an executive vice president of Shandong AirMaster Limited Company (山東雅士股份有限公司) from May 2011 to December 2012, an operation planning director of Beijing Originwater from November 2010 to May 2011, and a deputy general manager of Tsinghua Tongfang Artificial Environment Co., Ltd. (清華同方人工環境有限公司) from 2000 to 2010.

Mr. Long obtained a bachelor's degree in engineering from Chongqing University (重慶大學) in July 1991, and a certificate of completion of senior seminar of graduate courses specialized in high and new technology and management practice from Tsinghua University in October 2003.

Mr. TONG Chao (佟 超), aged 41, is a Supervisor. Since joining the Company in April 2013, Mr. Tong successively served as the director of the leasing team, risk management team and information technology team and he was promoted to serve as a chief expert of the Company in January 2018. Prior to joining the Company, Mr. Tong served as the general manager of the leasing department of Huayuan Leasing Co., Ltd. (華遠租賃有限公司) from October 2011 to April 2013. He served as a regional manager of the education sector of Far East International Leasing Co., Ltd. (遠東國際租賃有限公司) from October 2009 to April 2011, primarily responsible for finance leasing business in Inner Mongolia. He served at the Beijing branch of Citibank from September 2008 to July 2009, and successively served as a clerk and business manager at the Shenyang branch of China Merchants Bank from September 2000 to July 2006.

Mr. Tong graduated from Dongbei University of Finance and Economics (東北財經大學), majoring in currency and banking, and obtained a bachelor's degree in economics in July 2000. He obtained a master's degree in business administration from Tsinghua University (清華大學) in July 2008.

Ms. ZHOU Di (周迪), aged 42, is a Supervisor. Ms. Zhou joined the Company in April 2013. She has been the vice director of the assets management team of the Company since January 2018, prior to which, Ms. Zhou served as the director assistant of the assets management team from June 2016 and as the legal manager of the assets management team from April 2013, primarily responsible for legal affairs and assets disposal. Prior to joining the Company, Ms. Zhou was an attorney at Shaanxi Rongde Law Firm (陝西融德律師事務所) from January 2009 to January 2013.

Ms. Zhou graduated from the Northwest University of Political Science and Law (西北政法大學, previously known as Northwest Institute of Politics and Law (西北政法學院)) with a bachelor's degree in law in July 1999. She obtained a master's degree in law from Xi'an Jiaotong University (西安交通大學) in June 2009. Ms. Zhou was accredited as a PRC lawyer by the Ministry of Justice in May 1999. She obtained the securities certificate of qualification granted by Securities Association of China in November 2015. She also obtained the training certificate of board secretary granted by the Training Center of Ministry of Human Resources and Social Security of the PRC in April 2019.

Ms. HAN Nana (韓娜娜) (with former name HAN Lina (韓麗娜)), aged 37, is a Supervisor. Since joining the Company in March 2018, Ms. Han has been serving as a vice director of the human resources team & party-masses work team of the Company. Prior to joining the Company, from August 2005 to March 2018, Ms. Han served in several positions in Aerospace Long March Launch Vehicle Technology Co., Ltd. (航天長征火箭技術有限公司), including an assistant of the party-masses work department, and a deputy division chief of the corporate culture division at the party-masses work department.

Ms. Han graduated from Renmin University of China (中國人民大學) with a bachelor's degree in philosophy in July 2002 and with a master's degree in Marxist philosophy in July 2005, respectively. She obtained the qualification of senior political work staff (高級政工師) granted by China Aerospace Science and Technology Corporation (中國航天科技集團有限公司) in August 2011.

SENIOR MANAGEMENT

The following table sets forth information regarding the senior management of the Company.

Name	Age	Position	Timing of joining the Company
Mr. DOU Jiyan	41	Deputy general manager and head of risk management team	April 30, 2013
Ms. YANG Pengyan	43	Deputy general manager	April 30, 2013
Mr. LIU Shouquan	38	General manager assistant	November 1, 2013
Mr. LIANG Jingji	43	General manager assistant and director of the assets management team	April 30, 2013
Mr. GAO Wei	53	Board secretary, company secretary and head of finance team	June 17, 2019

Mr. DOU Jiyan (竇繼巖), aged 41, is a deputy general manager and head of risk management team of the Company and is responsible for operation of the project assessment team, risk management team and information technology team. Mr. Dou joined the Company in April 2013 and served as the director of the risk management team of the Company until December 2014. Then he served as a general manager assistant of the Company from December 2014 and Mr. Dou was promoted and has been serving as a deputy general manager since October 2017. Mr. Dou has been serving as the chairman of Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. (北京中諾同創投資基金管理有限公司) since April 2019. Prior to joining the Company, Mr. Dou served as a senior manager of the marketing department of Doushan (China) Financial Leasing Co., Ltd. (鬥山(中國)融資租賃有限公司) from September 2007 to May 2013.

Mr. Dou graduated from Shandong Technology and Business University (山東工商學院, formerly known as China Coal Economic College (中國煤炭經濟學院)) with a bachelor's degree in management in July 2002. He obtained the certificate of economist granted by Beijing Municipal Human Resources and Social Securities Bureau in November 2012.

Ms. YANG Pengyan (楊鵬艷), aged 43, is a deputy general manager of the Company and is primarily responsible for eco-solutions business, intelligent manufacturing business and operation of financial market team. Ms. Yang joined the Company in April 2013 as a vice director of the business development department of the Company. In December 2014, she was promoted to serve as the director of strategy development team of the Company. Ms. Yang was further promoted to and she has been serving as a deputy general manager of the Company since September 2017. Prior to joining the Company, Ms. Yang served as the head of the planning and development department of ZGC Group from January 2012 to April 2013. From August 2010 to March 2011, she temporarily served as a president assistant in the insurance and non-banking service department of Beijing Financial Work Bureau (北京市金融局保險與非銀服務處) for training purpose. From March 2009 to May 2012, she was a postdoctoral fellow majoring in applied economics at Peking University (北京大學).

Ms. Yang graduated from University of Jinan (濟南大學, previously known as Shandong Construction Material & Industrial School (山東建築材料工業學院)) with a bachelor's degree in engineering in July 1998. She graduated from University of International Business and Economics with a master's degree in law in June 2003. She further obtained a doctor's degree in economics from University of International Business and Economics in June 2008. She was granted the legal professional qualification by the Ministry of Justice in September 2002. She obtained the certificate of senior economist granted by Beijing Senior Professional Technical Qualification Review Committee (北京市高級專業技術資格評審委員會) in September 2016.

Profile of Directors, Supervisors and Senior Management

Mr. LIU Shouquan (劉守泉), aged 38, is a general manager assistant of the Company and is primarily responsible for big data business, life sciences & healthcare business and internet-based products & services business. Mr. Liu joined the Company in November 2013 as a senior manager of the leasing team of the Company and served in that position until December 2014. From December 2014 to January 2018, he successively served as the vice director and the director of the leasing team, and he has been serving as the general manager assistant of the Company since January 2018. Prior to joining the Company, Mr. Liu served as the general manager assistant in Beijing Kaiyuan Finance Leasing Co., Ltd. (北京開元融資租賃有限公司) from April 2012 to October 2013. He served in Zhongdan Investment Credit Assurance Co., Ltd. (中擔投資信用擔保有限公司) from September 2009 to February 2012, primarily responsible for guarantee business. He served in Beijing Hyundai Motor Company (北京現代汽車有限公司) from August 2003 to July 2006.

Mr. Liu obtained a bachelor's degree in management from School of Network Education of Renmin University of China (中國人民大學網絡教育學院) in June 2007 through long distance learning course.

Mr. LIANG Jingji (梁經基), aged 43, is the general manager assistant and director of the assets management team of the Company and is primarily responsible for operation of assets management team of the Company. Mr. Liang has been serving as the director of the assets management team of the Company since joining the Company in April 2013. He has also been serving as a chief expert and general manager assistant since January 2018 and January 2019, respectively. Prior to joining the Company, Mr. Liang served as the general counsel of China KangFu International Leasing Co., Ltd. (中國康富國際租賃有限公司), a company whose shares are quoted on National Equities Exchanges and Quotations (stock code: 833499), from September 2007 to April 2013, primarily responsible for legal affairs.

Mr. Liang graduated from Hunan Normal University (湖南師範大學) with a bachelor's degree in Arts in June 1999. He graduated from Xiangtan University (湘潭大學) with a master's degree in law in June 2006. He was accredited as a PRC lawyer by Beijing Municipal Bureau of Justice in December 2007.

Mr. GAO Wei (高偉), aged 53, is the board secretary, company secretary and head of finance team of the Company, jointed the Company in June 2019. Mr. Gao is primarily responsible for management of finance team, strategic investment team and general office, and secretarial work of the Company since August 2019. Mr. Gao has extensive experience in corporate financing and managing overseas-listed companies. He has been one of the council members of The Hong Kong Institute of Chartered Secretaries since January 2012, and he has served as its vice president since April 2014; he served as one of the vice chairmen of the board secretary committee of China Association for Public Companies (中國上市公司協會) from November 2015 to November 2018. He served as a director of Sinotrans Air Transportation Development Co., Ltd. (中外運空運發展股份有限公司, a company previously listed on Shanghai Stock Exchange with the stock code of 600270) from November 2011 to June 2019. He served as the general manager of the company from January 2016 to June 2019, primarily responsible for overall operation and management and he served as the legal representative of the company from January 2017 to August 2019. He served as the board secretary and company secretary of Sinotrans Limited (中國外運股份有限公司), a company listed on the Stock Exchange with the stock code of 0598) from January 2003 to December 2016, primarily responsible for secretarial work; he served as the general counsel of Sinotrans Limited from January 2010 to June 2019, primarily responsible for legal affairs.

Mr. Gao graduated from University of Science and Technology Beijing (北京科技大學) majoring in management engineering in July 1989, and further obtained a master's degree in economics from Central University of Finance and Economics (中央財經大學) in January 1993. He obtained a doctor's degree in law from University of International Business and Economics (對外經濟貿易大學) in June 1999. He was accredited as a PRC lawyer by the Ministry of Justice in October 1996. He is a fellow member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Mr. Gao has been serving as a visiting professor of the Law School of University of International Business and Economics since January 2019. He is also an arbitrator of each of China International Economic and Trade Arbitration Commission, China Maritime Arbitration Commission and Beijing Arbitration Commission.

Management Discussion and Analysis

	For the year ended December 31,			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Operating Performance				
Revenue	**515,340**	412,783	358,581	318,046
Interest income	**420,698**	340,571	283,771	253,496
Advisory fee income	**94,642**	72,212	74,810	64,550
Other net income	**18,759**	16,331	9,606	10,631
Interest expense	**(220,978)**	(168,012)	(155,134)	(146,890)
Operating expense	**(100,190)**	(74,854)	(56,820)	(47,341)
Impairment losses charged	**(27,768)**	(27,364)	(25,969)	(24,073)
Share of losses of associates	**(265)**	–	–	–
Net foreign exchange losses	**(12)**	–	–	–
Profit before taxation	**184,886**	158,884	130,264	110,373
Profit for the year	**138,256**	118,996	97,435	82,623
Earnings per Share (in RMB)	**0.14**	0.12	0.13	0.17
Profitability				
Return on average equity(1)	**10.3%**	9.6%	10.6%	13.6%
Return on average assets(2)	**2.1%**	2.2%	2.0%	2.1%
Net interest margin(3)	**3.4%**	3.6%	3.1%	2.9%
Net interest spread(4)	**2.2%**	2.4%	2.2%	2.2%
Net profit margin(5)	**26.8%**	28.8%	27.2%	26.0%

Notes:

(1) Calculated by dividing profit for the year by the average balance of total equity at the beginning and the end of the year.

(2) Calculated by dividing profit for the year by the average balance of total assets at the beginning and the end of the year.

(3) Calculated by dividing net interest income for the year by the average balance of interest-earning assets.

(4) Calculated as the difference between interest income yield and interest expense cost.

(5) Calculated by dividing profit for the year by the total revenue for the year.

	As of December 31,			
	2019	2018	2017	2016
	RMB' 000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Total assets	**6,988,985**	5,968,956	4,999,834	4,619,205
Finance lease receivables	**6,424,127**	5,376,794	4,421,144	4,109,052
Total liabilities	**5,596,729**	4,681,195	3,797,118	3,987,280
Borrowings	**4,158,382**	3,319,747	2,612,265	3,043,280
Total equity	**1,392,256**	1,287,761	1,202,716	631,925
Net assets per share (in RMB)	**1.39**	1.29	1.20	1.26
Financial assets and liabilities(1)				
Financial assets	**7,436,344**	6,332,819	5,232,702	4,849,368
Financial liabilities	**5,614,668**	4,610,932	3,745,652	4,085,872
Liquidity				
Liability to asset ratio(2)	**80.1%**	78.4%	75.9%	86.3%
Risk asset to equity ratio(3)	**480.9%**	437.6%	387.6%	694.1%
Liquidity ratio(4)	**117.7%**	112.2%	145.5%	139.8%
Asset quality ratios				
NPA ratio(5)	**1.3%**	1.3%	1.5%	0.7%
Allowance coverage ratio for NPAs(6)	**158.0%**	151.2%	118.0%	197.8%

Notes:

(1) Calculated based on contractual undiscounted cash flows.

(2) Calculated by dividing total liabilities by total assets.

(3) Calculated by dividing risk assets by total equity. Risk assets are the total assets net of cash and cash equivalents and pledged and restricted deposits.

(4) Calculated by dividing current assets by current liabilities as of the end of the year.

(5) Represent the percentage of NPAs in the total interest-earning assets before deducting allowances for impairment losses.

(6) Calculated by dividing allowances for impairment losses of interest-earning assets by the balance of non-performing interest-earning assets.

Management Discussion and Analysis

1. ECONOMIC ENVIRONMENT

1.1 Macro-economy Environment

Reviewing the economic situation in 2019, China maintained steady and continuous economic development despite the mounting risks and challenges from both at home and abroad, with the Organization for Economic Co-operation and Development and the International Monetary Fund repeatedly cutting the growth forecast for the world economy.

In 2019, China's gross domestic product ("**GDP**") was RMB99 trillion, representing a year-on-year increase of 6.1%, with the per capita GDP exceeded the USD10,000 mark for the first time. The total consumption expenditure, capital investment and net exports of goods and services contributed to 57.8%, 31.2% and 11.0% of GDP growth respectively.

Overall, China's economy in aggregate has reached a new level. The economy has maintained a medium-high growth rate, making China a leader among the major economies and a key driver for the global economy.

1.2 Financial Environment

In respect of monetary conditions, the People's Bank of China continued to implement a stable macro policy and made moderate counter-cyclical adjustments, while maintaining prudent monetary policies and reasonable market liquidity, as well as deepening supply-side structural reforms and continuously increasing financial supports to the real economy and small businesses. On the whole, the overall liquidity was reasonable and structurally abundant, and the growth of credit and social financing kept pace with economic development.

As of December 31, 2019, the scale of social financing amounted to RMB251.3 trillion, representing a year-on-year increase of 10.7%, and the growth rate recorded a year-on-year increase of 0.4 percentage point. The annual aggregate social financing in 2019 increased by RMB25.6 trillion, representing an increase of RMB3.1 trillion as compared to 2018.

As of December 31, 2019, the broad money (M2) balance was RMB198.7 trillion, representing a year-on-year increase of 8.7%, and the growth rate was 0.6 percentage point higher as compared to 2018. The balance of narrow money (M1) was RMB57.6 trillion, representing a year-on-year increase of 4.4%, and the growth rate was 2.9 percentage points higher than the previous year.

As of December 31, 2019, the RMB and foreign currency loans totaled RMB158.6 trillion, representing a year-on-year increase of 11.9%. The RMB loan balance was RMB153.1 trillion, representing a year-on-year increase of 12.3% with the growth rate 1.2% points lower than the previous year. The RMB loans increased by RMB16.8 trillion, representing an increase of RMB643.9 billion as compared to 2018. The balance of foreign currency loans was USD786.9 billion, representing a year-on-year decrease of 1.0%, and the foreign currency loans for the year decreased by USD7.9 billion, representing a year-on-year decrease of USD35.2 billion.

1.3 Industry Environment

With the further transformation and upgrading of China's economy and industrial structure, the tertiary industry's position in the national economy has been continuously enhanced. In 2019, the value added of the primary industry was RMB7,046.7 billion, representing a year-on-year increase of 3.1%; the value added of the secondary industry was RMB38,616.5 billion, representing a year-on-year increase of 5.7%. As the industrial system improves, the value added of the manufacturing sector is expected to rank China first in the world for 10 consecutive years. The added value of the tertiary industry was RMB53,423.3 billion, representing a year-on-year increase of 6.9%, and the service industry maintained rapid growth. The value added of the primary industry, secondary industry and tertiary industry accounted for 7.1%, 39.0% and 53.9% of GDP, respectively.

New growth drivers have been developing rapidly. Among the industries above designated size throughout the year 2019, the value added of strategic emerging industries increased by 8.4% over the previous year; the value added of high-tech manufacturing increased by 8.8%; the value added of equipment manufacturing increased by 6.7%. Among the service industries above designated size, the operating income of strategic emerging service enterprises increased by 12.7% over the previous year. The investment in high-tech industries increased by 17.3% over the previous year, while the investment in industrial technological transformation increased by 9.8% over the previous year. The annual output of service robots was 3.46 million sets, representing a year-on-year increase of 38.9%. The online retail sales for the whole year amounted to RMB10,632.4 billion calculated on the comparable line, representing an increase of 16.5% over the previous year.

The five main industries (big data, eco-solutions, life sciences & healthcare, intelligent manufacturing, and internet-based products & services) which the Group served were all among the new growth drivers. Our eco-solutions customers are primarily engaged in provision of industrial technology transformation services, such as energy saving and emission reduction technologies, in the fields of sanitation-environment integration, smog control, and distributed energy resources. While our life sciences & healthcare customers primarily included companies from the pharmaceutical, medical device and medical services sectors, dedicated to improving people's living standards. The above two sectors have maintained a good development trend with the continuous increase in industry demand. With the steady progress of 5G, the rapid development of new technologies such as big data, cloud computing and artificial intelligence has benefited our customers along the entire big data industry. As Chinese manufacturing has continued to move towards the medium-high end, sectors such as industrial automation, robotics and integrated circuits have been offered new opportunities for growth, which would benefit our intelligent manufacturing customers. Our internet-based products & services customers primarily operated in the consumption upgrade sector, which pointed to an unlimited potential with the surge in per capita disposable income.

1.4 The Leasing Industry

According to the statistics of the national financial leasing enterprise management information system, as of the end of 2019, there were more than 11,000 financial leasing companies registered nationwide, with a total registered capital of more than RMB4.0 trillion, and an expected financial leasing contracts balance of over RMB7.0 trillion. The development of the financial leasing industry has been becoming more and more differentiated. Large leasing companies, mainly financial leasing companies, continued to compete fiercely around large customers and projects in the traditional field. Third-party leasing companies that are at the top continued to expand services with the advantages of premium brands. The Group, as role model of the innovative financial leasing companies, continued to retain a leading edge with our first-mover advantage in the technology and new economy related businesses.

In terms of industrial regulation, the new policies for the supervision of financial leasing enacted by the China Banking and Insurance Regulatory Commission ("**CBIRC**") mainly made restrictions on the scope of business and leased assets, the proportion of risk assets, and the concentration of customers of commercial financial leasing companies. The new policies had a positive effect on the operation of financial leasing companies, establishing common business standards and regulatory rules, guiding the financial leasing industry to better serve the real economy, as well as effectively preventing financial risks. The Group's development strategy has been highly aligned with the new regulatory policies, thus would continuously benefit from the supportive policies.

1.5 Group's Solutions

In order to adapt to the macro-economy environment in 2019 and to consolidate and enhance its competitive strengths in the technology and new economy related businesses, the Group has taken a proactive approach from the following three aspects.

Upgrading Marketing Strategy

In addition to the four separate business project teams serving customers from industries including big data, eco-solutions, life sciences & healthcare and intelligent manufacturing, the Group established a brand new team dedicated to serving the internet-based products & services industry, to make a push into the consumption upgrade sector. We further strengthened the cooperation with investment institutions, industry associations and alliances to deploy a variety of marketing and promotional activities as part of our overall strategy to expand customer base, including customer sharing sessions and industry conferences and contests. For example, in 2019, we co-organized "Zhongguancun International Advanced Technology Innovation Competition" (中關村國際前沿科技創新大賽), "'Maker in Beijing' Innovation and Entrepreneurship Competition"("創客北京2019"創新創業大賽) and the "Fifth Environmental Protection Innovation and Entrepreneurship Competition" (第五屆環保創新創業大賽), which attracted companies with leading technologies and innovative capabilities in the technology and new economy industries, such as next generation information technology, biomedicine, clean heating, intelligent logistics and high-end manufacturing. We established contact with 180 potential customers, some of which became our customers and entered into finance lease agreements with us subsequently.

Innovating Business Model

The Group adopted the business model of combing financial leasing solutions with distinctive value-added services for customers and investment in those of high growth and high value. In terms of services, we delivered a variety of advisory services such as policy advisory and management and business consulting, and launched "Science-Tech Leasing Business School" to analyze the various aspects of our customers' business management, so as to facilitate their growth and create business opportunities. In terms of investment, Beijing Zhongnuo, an associate of the Company, raised RMB200 million at the first phase, and has completed certain investments decision from over 30 high-quality selected projects.

Strengthening Risk Management Capabilities

Leveraging our principal credit rating model and lease receivable rating model, we successfully finished the rating of 325 leasing projects and selected customers with the most investment value. Our lease business operation system and risk management system, with leading competitiveness, has achieved data association between the Group's business data and the big data, thus our customer assets could be transformed into data assets in multiple dimension, laying a solid foundation for our innovative business model of combing financial leasing solutions with distinctive value-added services for customers and investment in those of high growth and high value. We also established the risk management structure of the entire lease lifecycle on the basis of big data application, and launched scenario-based risk assessment products.

2 ANALYSIS OF PROFIT OR LOSS

2.1 Overview

In 2019, the Group continuously adopted the customer-oriented business model, and was dedicated to serving Chinese technology and new economy companies of high growth and high value. By successfully capitalizing on the growth of customers' business, the Group achieved steady growth in business operation. In 2019, the Group realized a total revenue of RMB515.3 million, representing a 24.8% year-on-year growth, and the profit during the year increased to RMB138.3 million, representing a 16.2% year-on-year growth.

2.2 Revenue

The revenue of the Group increased by 24.8% from RMB412.8 million in 2018 to RMB515.3 million in 2019, primarily due to the expansion of our business along with the increase in the number of customers we served. In 2019, the Group realized an interest income of RMB420.7 million, accounting for 81.6% of the total revenue and representing a 23.5% year-on-year growth. Advisory fee income increased by 31.1% to RMB94.6 million in 2019, accounting for 18.4% of the total revenue, as the Group delivered a variety of advisory services aligned with efficient finance lease solutions.

The following table sets forth the breakdown of revenue from interest income and advisory fee income for the years indicated.

	For the year ended December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Interest income	**420,698**	**81.6%**	340,571	82.5%	23.5%
Advisory fee income	**94,642**	**18.4%**	72,212	17.5%	31.1%
Total revenue	**515,340**	**100.0%**	412,783	100.0%	24.8%

In 2019, the Group remained dedicated in serving technology and new economy companies in the following five industries: big data, eco-solutions, life sciences & healthcare, intelligent manufacturing and internet-based products & services. While continuously optimizing the asset structure, revenue contributions from these five industries were well balanced.

The following table sets forth the contribution by industry to total revenue for the years indicated.

	For the year ended December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Eco-solutions	**141,467**	**27.5%**	108,251	26.2%	30.7%
Life sciences & healthcare	**116,760**	**22.7%**	80,855	19.6%	44.4%
Intelligent manufacturing	**100,107**	**19.4%**	86,257	20.9%	16.1%
Big data	**78,484**	**15.2%**	68,438	16.6%	14.7%
Internet-based products & services	**60,907**	**11.8%**	51,435	12.5%	18.4%
Others	**17,615**	**3.4%**	17,547	4.2%	0.4%
Total revenue	**515,340**	**100.0%**	412,783	100.0%	24.8%

In 2019, a significant portion of the revenue was generated from the northern region of China, and business coverage of the Group expanded steadily in other regions. While further strengthening the customer base in the Beijing-Tianjin-Hebei Integrated Area, the Group has gradually penetrated its business into other regions that nursed and nurtured a growing number of Chinese technology and new economy companies. Notably, the business growth in southern region of China was remarkable, with an increase of 202.6% from the previous year.

The following table sets forth the breakdown of revenue by major geographical areas for the years indicated.

	For the year ended December 31,			
	2019		2018	
	RMB'000	% of total	RMB'000	% of total
Northern	296,365	57.5%	273,397	66.2%
Eastern	86,531	16.8%	63,313	15.3%
Central	50,955	9.9%	37,846	9.2%
Southern	29,656	5.8%	9,799	2.4%
Northwestern	25,435	4.9%	10,536	2.6%
Southwestern	11,741	2.3%	6,666	1.6%
Northeastern	14,657	2.8%	11,226	2.7%
Total revenue	515,340	100.0%	412,783	100.0%

2.2.1 Interest Income

The interest income of the Group increased by 23.5% from RMB340.6 million in 2018 to RMB420.7 million in 2019, primarily due to the increase of the average amount of finance lease receivables in line with our business expansion.

The following table sets forth the amount of average balance of finance lease receivables and the average comprehensive yield by industry for the years indicated.

	For the year ended December 31,					
	2019			2018		
	Amount[(1)]	Interest income	Comprehensive yield[(2)]	Amount	Interest income	Comprehensive yield
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Big data	976,536	67,411	6.9%	808,093	50,070	6.2%
Eco-solutions	1,711,662	112,509	6.6%	1,365,323	90,829	6.7%
Life sciences & healthcare	1,199,922	98,180	8.2%	943,781	69,325	7.3%
Intelligent manufacturing	1,252,135	79,911	6.4%	1,043,609	69,290	6.6%
Internet-based products & services	702,832	49,527	7.0%	662,557	45,209	6.8%
Others	180,615	13,160	7.3%	170,939	15,848	9.8%
Total interest income	6,023,702	420,698	7.0%	4,994,302	340,571	6.8%

Notes:

(1) Calculated by dividing the sum of finance lease receivables before allowances for impairment losses at the beginning of the year and at the end of the year by two.

(2) Calculated by dividing interest income by average balance of financial lease receivables.

Analysis by Average Balance of Finance Lease Receivables

The average balance of finance lease receivables increased by 20.6% from RMB4,994.3 million in 2018 to RMB6,023.7 million in 2019. Particularly, eco-solutions and life sciences & healthcare industries demonstrated strong growth in the scale, with an increase of 25.4% and 27.1%, respectively, as compared to the previous year. The growing average balance of finance lease receivables was primarily underpinned by the expansion of high-quality customer base.

Analysis by Comprehensive Yield

In 2019, the comprehensive yield of the Group was 7.0%, representing an increase of 0.2 percentage point from 6.8% in the previous year, mainly because (i) the Group strategically targeted high-quality customers rather than merely low-risk customers, and optimized the pricing strategy according to changes in market demand; (ii) in 2019, about 57.5% of the balance of finance lease receivables were from newly entered agreements in the current year, and the overall yield on new businesses increased; and (iii) benefitting from its first-mover competitive position in life sciences & healthcare industry, the Group further tapped into unmet business needs of customers.

2.2.2 Advisory Fee Income

The advisory fee income of the Group increased by 31.1% from RMB72.2 million in 2018 to RMB94.6 million in 2019, primarily due to the increase in the number of customers we served, which is in line with our business expansion.

The Group delivered a variety of advisory services to its customers, including policy advisory and management and business consulting. Leveraging the understanding of its customers and rich experience in government supports, the Group assisted customers in applying for the subsidies and support. The Group also collaborated with certain third-party consulting firms to analyze customers' operation performances.

The following table sets forth the contribution by service to advisory fee income for the years indicated.

	For the year ended December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Management advisory fee income	**23,885**	**25.2%**	27,860	38.6%	(14.3%)
Policy advisory fee income	**70,757**	**74.8%**	44,352	61.4%	59.5%
Total advisory fee income	**94,642**	**100.0%**	72,212	100.0%	31.1%

The contribution by each industry to advisory fee income is relatively balanced. In order to adapt to the macro-economy environment, the Group continuously optimized its service structure and means for customers in targeted industries, which helped enhance customer stickiness and share customers' growth in business.

The following table sets forth the contribution by industry to advisory fee income for the years indicated.

	For the year ended December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Eco-solutions	**28,958**	**30.6%**	17,422	24.1%	66.2%
Intelligent manufacturing	**20,195**	**21.3%**	16,968	23.5%	19.0%
Life sciences & healthcare	**18,580**	**19.6%**	11,530	16.0%	61.1%
Internet-based products & services	**11,380**	**12.0%**	6,226	8.6%	82.8%
Big data	**11,073**	**11.7%**	18,368	25.4%	(39.7%)
Others	**4,456**	**4.8%**	1,698	2.4%	162.4%
Advisory fee income	**94,642**	**100.0%**	72,212	100.0%	31.1%

2.3 Interest Expense

The interest expense of the Group increased by 31.5% from RMB168.0 million in 2018 to RMB221.0 million in 2019, primarily due to: (i) the increase in the average balance of borrowings which was in line with the continuous business expansion; (ii) the increase of overall yield of bond market in 2018, resulted in the relatively high funding costs from the outstanding assets-backed securities at the beginning of 2019; and (iii) since April 1, 2019, value-added tax rate for direct leases adjusted downward from 16% to 13%, resulting a decrease in the deductible value-added tax and an increase in finance costs.

In response to the constantly changing economic and capital market environment, the Group continually adhered to its flexible and diverse funding strategy. To that end, the Group made significant efforts in strengthen its collaborative relationship with financial institutions, investors, and credit rating agencies. The Group also strived to effectively control the finance costs by optimizing financing structure, increasing the proportion of direct financing, and actively exploring additional funding sources.

The following table sets forth the breakdown of our interest expense by funding sources for the years indicated.

	For the year ended December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Commercial banks	**78,556**	**35.6%**	59,694	35.5%	31.6%
Borrowings from related parties[1]	**68,131**	**30.8%**	69,173	41.2%	(1.5%)
Asset-backed securities	**35,147**	**15.9%**	7,617	4.5%	361.4%
Imputed on interest-free guaranteed deposits	**38,104**	**17.2%**	31,528	18.8%	20.9%
Lease liabilities	**1,040**	**0.5%**	–	0.0%	N/A
Total interest expense	**220,978**	**100.0%**	168,012	100.0%	31.5%

Note:

(1) Refer to pledged loans from ZGC Group and its subsidiaries.

The following table sets forth the amount of average balance of borrowings and the average interest expense cost on borrowings by industry for the years indicated.

Borrowings[1]	For the year ended December 31, 2019 Amount[2]	Interest expense	Average cost[3]	2018 Amount	Interest expense	Average cost
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Commercial banks	**1,614,616**	**78,556**	**4.9%**	1,250,878	59,694	4.8%
Borrowings from related parties	**1,382,462**	**68,131**	**4.9%**	1,390,154	69,173	5.0%
Asset-backed securities	**646,164**	**35,147**	**5.4%**	164,029	7,617	4.6%
Borrowings	**3,643,242**	**181,834**	**5.0%**	2,805,060	136,484	4.9%

Notes:

(1) Not including imputed interest expense on interest-free guaranteed deposits from lessees and interest expense on lease liabilities.

(2) Calculated based on the average of the monthly ending balances during the year.

(3) Calculated by dividing interest expenses for the year by the average balance of borrowings.

In 2019, the Group held an interest expense cost on borrowings of 5.0%, which was slightly higher than that of 2018, primarily because: (i) the outstanding borrowings at the beginning of 2019 accounted for a major proportion of interest expenses in 2019; (ii) the increase in overall funding costs in the market in 2018 resulted in the increase in the average interest expense cost on asset-backed securities; and (iii) as the gradual settlement of long-term entrusted loans from ZGC Group or its subsidiaries, and the Group replaced that with short-term loans to lower the cost, the average interest expense cost on related parties decreased.

The Group believes that with the gradual settlement of high-cost borrowings and the increasing balance of low-cost new borrowings, the average interest expense cost is expected to decrease. With the upgrading of the Group's credit ratings, the average interest expense cost will further decrease. Meanwhile, the Group will make significant efforts in reducing funding costs and promoting the effectiveness of funding allocation and the liquidity management.

2.4 Net Interest Spread and Net Interest Margin

The following table sets forth the net interest margin and relevant figures for the years indicated.

	For the year ended December 31,		
	2019	2018	**Changes**
	RMB'000	RMB'000	
Interest income	**420,698**	340,571	23.5%
Interest expenses	**220,978**	168,012	31.5%
Net interest income	**199,720**	172,559	15.7%
Interest income yield(1)	**7.1%**	7.2%	(0.2%)
Interest expense yield(2)	**4.9%**	4.8%	2.8%
Net interest spread	**2.2%**	2.4%	(6.5%)
Net interest margin	**3.4%**	3.6%	(5.6%)

Notes:

(1) Calculated by dividing interest income for the year by the monthly average balance of the interest-earning assets.

(2) Calculated by dividing interest expenses for the year by the average balance of interest-bearing liabilities.

Net interest spread of the Group in 2019 decreased by 0.2% point to 2.2% as compared with 2.4% in 2018. The decrease in net interest spread was primarily due to the increase in the interest expense cost. For details of the interest expense cost, please refer to the discussion and analysis in paragraphs headed 2.3 Interest Expense of this section. While the average balance of interest-earning assets increased by 23.8%, the average balance of interest-bearing liabilities further increased by 28.4%, which primarily drove the growth rate of interest income lower than that of interest expenses. The net interest margin increased by 15.7% from RMB172.6 million in 2018 to RMB199.7 million in 2019. For the reasons mentioned above, the net interest margin of the Group decreased by 0.2 percentage point to 3.4% in 2019 as compared with 3.6% in 2018.

2.5 Other Net Income

Other net income primarily includes the government grant we received from the relevant authorities and interests from our bank deposits. In 2019, our other net income was RMB18.8 million.

The government grants we received were provided to support small and medium-sized finance lease companies to reward those who offer finance lease solutions to support the innovative culture in the finance lease industry. The amount of such grants is typically determined by the amount of funds we released to our customers in a particular year or period.

The following table sets forth the breakdown of other net income for the years indicated.

	For the year ended December 31,		
	2019	2018	**Changes**
	RMB'000	RMB'000	
Government grants	**14,620**	12,791	14.3%
Interests from deposits	**3,671**	3,417	7.4%
Investment income	**–**	1	(100.0%)
Others	**468**	122	283.6%
Total other net income	**18,759**	16,331	14.9%

2.6 Operating Expense

In 2019, operating expense of the Group amounted to RMB100.2 million, representing an increase of RMB25.3 million or a growth rate of 33.8%, primarily due to: (i) increase of staff costs in the amount of RMB14.9 million; (ii) increase of service expenses in the amount of RMB4.3 million, which include service fees paid in relation to our advisory services and service fees in relations to commercial banks and asset-backed securities; (iii) non-recurring expenses for the listing of H Shares in the amount of RMB2.8 million; and (iv) increase in the audit remuneration expense in the amount of RMB1.7 million.

The following table sets for the breakdown of our operating expenses for the years indicated.

	For the year ended December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Staff cost	64,055	63.9%	49,169	65.7%	30.3%
Rental expense	1,065	1.1%	9,477	12.7%	(89.0%)
Service expense	9,943	9.9%	5,644	7.5%	76.2%
Depreciation and amortization[1]	11,377	11.4%	764	1.0%	1,389.1%
Professional service expense	2,600	2.6%	3,312	4.4%	(21.5%)
Listing expense	2,780	2.7%	–	–	N/A
Others	8,370	8.4%	6,488	8.7%	29.0%
Total operating expense	100,190	100.0%	74,854	100.0%	33.8%

Note:

(1) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognize right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee has been required to recognize the depreciation of right-of-use assets, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term.

2.7 Impairment Losses Charged

Impairment losses charged primarily related to finance lease receivables and credit commitments of the Group. In 2019, impairment losses charged of the Group was RMB27.8 million, representing a year-on-year increase of 1.5%. The relative stable figure was primarily because the Group effectively maintained the asset quality by continuously optimizing its comprehensive risk management mechanisms and strengthening its capability of risk prevention, control and resolution.

The following table sets forth a breakdown of our impairment losses charged for the years indicated.

	For the year ended December 31,		
	2019	2018	**Changes**
	RMB'000	RMB'000	
Finance lease receivables	**28,780**	27,036	6.5%
Credit commitments[1]	**(1,012)**	328	(408.5%)
Impairment losses charged	**27,768**	27,364	1.5%

Note:

(1) The Group's non-cancellable credit commitments are primarily finance leases that have been contracted, but not yet commenced.

2.8 Income Tax Expense

Income tax expense of the Group increased from RMB39.9 million in 2018 to RMB46.6 million in 2019, representing a growth rate of 16.9%, and was primarily due to the increase in profit before taxation.

The effective tax rate of the Group was 25.2%.

2.9 Profit for the Year

The net profit of the Group in 2019 was RMB138.3 million, representing an increase of RMB19.3 million, or a growth rate of 16.2% from 2018. The increase in profit for the year was the combined effect of (i) the increase of 24.8% in the revenue, (ii) the increase of 31.5% in interest expense, and (iii) the increase of 33.8% in operating expense. For detail of the above changes, please refer to the discussion and analysis in paragraphs headed 2.2 Revenue, 2.3 Interest Expense and 2.6 Operating Expense of this section.

In summary, faced with the mounting risks and challenges from the global economic environment and the downward pressure of the Chinese economy, the Group has been sticking to its strategic position and achieved steady growth in leasing business revenue and overall stability in leased asset quality. However, the increase of financing in business development and capital expenditure has led to rapid increase of interest expense. Meanwhile, the newly increased expenses related to the restructuring and the initial public offering gave rise to a significant increase of the expenses on business operation and management. In consequence, the Group's annual profit growth rate declined to a certain extent. It is expected that with the enhancement of the Group's net capital strength, the further expansion of the leasing business and the improvement of organizational effectiveness and operational quality, the Group's annual profit will maintain steady and continuous development.

2.10 Basic Earnings per Share

Basic earnings per share for 2019 amounted to RMB0.14, representing an increase of RMB0.02 or 16.7% from 2018.

3 ANALYSIS OF FINANCIAL POSITION

3.1 Assets (Overview)

As of December 31, 2019, total assets of the Group increased by RMB1,020.0 million or 17.1%, to RMB6,989.0 million as compared with December 31, 2018. Finance lease receivables of the Group increased by RMB1,047.3 million or 19.5%, to RMB6,424.1 million as compared with December 31, 2018.

In terms of the asset structure, cash and cash equivalents accounted for 3.6% of total assets, and financial leasing receivables accounted for 91.9% of total assets. The following table sets forth the breakdown of total assets as of the dates indicated.

	As of December 31, 2019		As of December 31, 2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Finance lease receivables	6,424,127	91.9%	5,376,794	90.0%	19.5%
Pledged and restricted deposits	41,564	0.6%	27,238	0.5%	52.6%
Cash and cash equivalents	252,106	3.6%	306,620	5.1%	(17.8%)
Other assets	138,284	2.0%	208,582	3.5%	(33.7%)
Deferred tax assets	43,621	0.6%	36,195	0.6%	20.5%
Property and equipment	22,348	0.3%	703	0.0%	3,078.9%
Interest in associates	49,515	0.7%	–	0.0%	N/A
Financial assets at fair value through other comprehensive income	11,026	0.2%	9,374	0.2%	17.6%
Intangible assets	6,394	0.1%	3,450	0.1%	85.3%
Total assets	6,988,985	100.0%	5,968,956	100.0%	17.1%

3.2 Finance Lease Receivables

The Group attracted 288 new customers and entered into 424 new contracts in 2019. Driven by the expansion of business scale, our financial leasing receivables continued to grow. As of December 31, 2019, net amount of finance lease receivables of the Group amounted to RMB6,561.8 million, representing an increase of RMB1,076.1 million, or a year-on-year growth of 19.6%.

The following table sets forth the breakdown of our finance lease receivables as of the dates indicated.

	As of December 31,		
	2019	2018	**Changes**
	RMB'000	RMB'000	
Gross amount of finance lease receivables	**7,122,908**	5,959,289	19.5%
Less: Unearned finance income	**(561,151)**	(473,645)	18.5%
Net amount of finance lease receivables	**6,561,757**	5,485,644	19.6%
Less: Allowances for impairment losses	**(137,630)**	(108,850)	26.4%
Carrying amount of finance lease receivables	**6,424,127**	5,376,794	19.5%

3.2.1 *Industry Profile of Finance Lease Receivables*

The following table sets forth a breakdown of the net amount of finance lease receivables by industries as of the dates indicated.

	As of December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Eco-solutions	**1,962,598**	**29.9%**	1,460,726	26.6%	34.4%
Intelligent manufacturing	**1,349,915**	**20.6%**	1,154,355	21.0%	16.9%
Life sciences & healthcare	**1,337,376**	**20.4%**	1,062,467	19.4%	25.9%
Big data	**958,502**	**14.6%**	994,570	18.1%	(3.6%)
Internet-based products & services	**747,898**	**11.4%**	657,766	12.0%	13.7%
Others	**205,468**	**3.1%**	155,761	2.9%	31.9%
Net amount of finance lease receivables	**6,561,757**	**100.0%**	5,485,645	100.0%	19.6%

In 2019, the Group took initiative to cope with the downward macro-economic environment and adjusted the asset structure according to the industrial condition. In particular, the Group strategically increased the asset allocation for life sciences & healthcare industry, as it was featured by the weakly correlated business cycle. Due to the relatively long lease term of projects in the eco-solutions industry, the proportion of assets is relatively high as well. On the premise of ensuring asset quality, the Group continued to cultivate customers among those five technology and new economy industries. As of December 31, 2019, the net amount of finance lease receivables for life sciences & healthcare industry and eco-solutions industry was RMB501.9 million and RMB274.9 million, respectively.

3.2.2 Finance Lease Receivables by Geographical Region

The following table sets forth the breakdown of our finance lease receivables by customers' geographical region as of the dates indicated.

	As of December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Northern	**3,505,629**	**53.4%**	3,566,139	65.0%	(1.7%)
Eastern	**1,103,994**	**16.8%**	815,111	14.9%	35.4%
Central	**760,480**	**11.6%**	479,467	8.7%	58.6%
Southern	**472,661**	**7.2%**	217,355	4.0%	117.5%
Northwestern	**362,497**	**5.5%**	196,970	3.6%	84.0%
Southwestern	**194,960**	**3.0%**	79,714	1.5%	144.6%
Northeastern	**161,536**	**2.5%**	130,889	2.4%	23.4%
Net amount of finance lease receivables	**6,561,757**	**100.0%**	5,485,645	100.0%	19.6%

3.2.3 *Maturity Profile of Finance Lease Receivables*

The following table sets forth a maturity analysis of our finance lease receivables before deducting allowance for impairment losses as of the dates indicated.

	As of December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Maturity					
Not later than 1 year	**3,556,390**	**54.2%**	2,838,774	51.7%	25.3%
1 to 2 years	**2,039,792**	**31.1%**	1,765,616	32.2%	15.5%
2 to 3 years	**721,545**	**11.0%**	737,111	13.5%	(2.1%)
Over 3 years	**244,030**	**3.7%**	144,143	2.6%	69.3%
Net amount of finance lease receivables	**6,561,757**	**100.0%**	5,485,644	100.0%	19.6%

Net amount of finance lease receivables due within a time period represents net finance lease receivables which the Group will be entitled to receive during that period. 54.2% of net amount of finance lease receivables as of December 31, 2019 was due not later than one year, which was slightly higher than that as of December 31, 2018. As the Group promoted business development balance among the five industries, the cash inflow to receive in the following periods would be consistent and sustainable.

3.2.4 *Asset Quality of Lease Receivable*

The Group has been closely monitoring the quality of lease assets and implemented five-level standard since 2013, which classifies finance lease receivables into five categories. The classification criteria of finance lease receivables of the Group are in line with the applicable regulations promulgated by the CBIRC and the industry practice, namely (1) normal, (2) special mention, (3) sub-standard, (4) doubtful, and (5) loss. The latter three with credit impairment are classified as non-performing assets.

Lease Receivable Classification

1. Normal. The lessee is able to perform and has been performing its obligations under the lease agreement, and we have no reason to doubt our ability to recover the full amount of the lease receivable. Lease payments related to finance lease receivables under this classification have always been on time or overdue for not more than 30 days.

2. Special mention. The lessee is able to perform and has been performing its obligations under the lease agreement, but there are adverse factors which may negatively impact our ability to recover the full amount of the lease receivable.

Lease payments related to finance lease receivables under this classification are typically overdue for over 30 days but not more than 90 days.

3. Sub-standard.

- The lessee has demonstrated clear difficulties in making timely lease payments, and is not able to obtain sufficient funds to pay through its normal course of business; or

- Lease receivables face impairment risks primarily due to adverse changes in the fair value of the leased assets or due to adverse uncertain macro-economic reasons, or disposal of leased assets could lead to losses.

Lease payments related to finance lease receivables under this classification are typically overdue for over 90 days but not more than 180 days.

4. Doubtful.

- The lessee is not able to make full and timely periodic lease payments, leading to significant changes in the value of the lease receivables; or

- Macro-economic factors have led to material impairment of lease receivables, or the disposal of leased assets would lead to significant losses.

Lease payments related to finance lease receivables under this classification are typically overdue for over 180 days.

5. Loss. After exhausting all necessary measures and legal remedies, we still cannot recover most of the lease receivable and interest income.

Leased Asset Management Measures

In 2019, under pressure from the overall macro-economy environment, the Group continued to promote operation innovation and management upgrading, which secured and controlled the leased asset quality during the reporting period.

In the process of leased asset introduction, we closely monitored the external environment and optimized the industrial layout. In addition to the four separate business project teams serving customers from industries including big data, eco-solutions, life sciences & healthcare and intelligent manufacturing, we established a brand new team dedicated to serving the internet-based products & services industry, to make a push into the consumption upgrade sector. Sticking to business specialization, we continuously improved asset risk diversification. We also took full advantage of internal and external superior resources, strengthened the cooperation with investment institutions, industry associations and alliances to further promote high-quality project implementation, which strengthened the foundation for business specialization.

In the process of leased asset management, we strengthened the asset process monitoring structure to enhance the abilities in risk prevention and defusing, consolidated the leased asset management structure to realize the whole-process tracking of leased asset management, optimized the risk disposal management structure to step up efforts to dispose of non-performing assets.

Strengthening the Leased Asset Process Monitoring Structure to Enhance the Abilities in Risk Prevention and Defusing

In 2019, the Group continued to strengthen the asset process monitoring structure. In terms of routine management, we continuously monitored the quality of accounts receivable, conducted comprehensive internal inspections periodically, fully reviewed and continuously optimized the asset process monitoring structure. In terms of information monitoring for internet risk, we realized public sentiment monitoring and risk warning by means of big data. For customers with signs of risk, we took targeted risk prevention measures in time, and effectively safeguarded the overall stability of asset quality through strong collection, pre-litigation preservation, debt restructuring and increased risk countermeasures.

Consolidating the Leased Asset Management Structure to Realize the Whole-process Tracking of Leased Asset Management

In 2019, the Group continuously strengthened efforts on due diligence over the value, ownership and controllability of leased assets, carried out classified and differentiated asset management schemes, and further improved the coverage of post-lease inspection, giving full play to its role of risk detection, prevention and control, to realize the whole-process tracking of leased asset management.

Optimizing Risk Disposal Management Structure to Step up Efforts to Dispose of Non-performing Assets

In 2019, the Group optimized the risk management mechanisms and process systems with continuous efforts, to enhance the efficiency of disposal decisions; continuously consolidated the legal resources protection structure, actively expanded cooperation in disposal resources and explored the upgrade of judicial resources; optimized work mechanisms and personnel allocation, and conducted sharing and summing-up in respect of disposal progress; categorized non-performing assets and matched them with suitable disposal resources; strengthened result-oriented performance assessment and increased assessment incentives; expanded traditional and innovative methods and ideas for disposal, introduced stronger disposal measures and increased disposal and recovery efforts.

The following table sets forth a breakdown of our finance lease receivable balance before deducting allowance for impairment losses under our lease receivable classifications as of the dates indicated.

	As of December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Normal	6,074,976	92.6%	5,089,037	92.8%	19.4%
Special mention	399,661	6.1%	324,638	5.9%	23.1%
Sub-standard	32,394	0.5%	–	–	N/A
Doubtful	54,726	0.8%	71,969	1.3%	(24.0%)
Loss	–	–	–	–	N/A
Net amount of finance lease receivables	6,561,757	100.0%	5,485,644	100.0%	19.6%
Non-performing assets	87,120		71,969		21.1%
NPA ratio	1.3%		1.3%		

In 2019, the Group adhered to prudent risk management. With comprehensive set of risk management structure, policies, procedures and tools, the Group continued to enhance the core competitiveness of servicing technology and new economy companies. Even under the downward pressure of macro-environment, the asset quality of the Group remained stable, with the proportion of normal assets accounting for 92.6%, and the non-performing asset ratio within a reasonable range.

As of December 31, 2019, the assets under special mention accounted for 6.1% of total net amount of finance lease receivables, representing a 0.2 percentage point increase from 5.9% as of December 31, 2018. In particular, the assets under special mention in intelligent manufacturing industry accounted for 37.4% of total assets under special mention.

The following table sets forth the analysis on the Group's assets under special mention by industry as of the dates indicated.

	As of December 31,			
	2019		2018	
	RMB'000	% of total	RMB'000	% of total
Intelligent Manufacturing	149,345	37.4%	63,753	19.6%
Eco-solutions	116,060	29.0%	161,423	49.7%
Big Data	84,002	21.0%	23,054	7.1%
Internet-based products & services	28,005	7.0%	64,024	19.7%
Life Sciences & healthcare	19,360	4.8%	6,954	2.1%
Others	2,889	0.8%	5,430	1.8%
Total special mention	399,661	100.0%	324,638	100.0%

As compared to December 31, 2018, the increase of assets under special mention in the intelligent manufacturing industry and big data industry was relatively obvious.

The assets under special mention in the intelligent manufacturing industry accounted for 37.4% of the total assets under special mention in 2019. This was mainly allocated in the new energy power battery sector. Due to the structural deduction in industry subsidies and tight market liquidity, some customers experienced periodic capital pressure. The Group prudently adjusted more assets in this industry to assets under special mention.

The assets under special mention in the big data industry accounted for 21.0% of the total assets under special mention in 2019. Some customers' equity financing had been delayed as investors became more hesitant due to the downward market condition. The group prudently adjusted more assets in this industry to assets under special mention.

The non-performing asset ratio of the Group remained stable, and the overall asset quality was safe and controllable. As of December 31, 2019, the NPA ratio was 1.3%, basically the same with that as of December 31, 2018.

The following table sets forth the analysis on the Group's non-performing assets by industry as of the dates indicated.

	As of December 31,			
	2019		2018	
	RMB'000	**% of total**	RMB'000	% of total
Big Data	**38,864**	**44.6%**	41,700	57.9%
Eco-solutions	**22,378**	**25.7%**	23,377	32.5%
Internet-based products & services	**16,553**	**19.0%**	2,473	3.4%
Others	**6,181**	**7.1%**	–	–
Life Sciences & healthcare	**2,207**	**2.5%**	3,158	4.4%
Intelligent Manufacturing	**937**	**1.1%**	1,261	1.8%
Total special mention	**87,120**	**100.0%**	71,969	100.0%

The non-performing assets in the big data industry accounted for 44.6% of the total non-performing assets in 2019, which was mainly distributed in communication infrastructure and Internet operation services sector. Due to the deeper restructuring of technology and policies in this sector, competition pattern had been reshaped. Some customers experienced difficulties in operation. The Group prudently classified the assets of this industry to the non-performing assets.

The non-performing assets in the eco-solution industry accounted for 25.7% of the total non-performing assets in 2019. This was mainly caused by downward shift in the macro-economic environment and strong supervision on environmental protection sector. Meanwhile, some customers encountered wrong management decision that led to increasing tension on capital turnover. The Group prudently classified the assets of this industry to the non-performing assets.

The non-performing assets in the internet-based products & services accounted for 19.0% of the total non-performing assets in 2019. Due to the increasingly intense competition in some sub-segments, some customers encountered shock market price fluctuations, resulting in the decline of business operation. The Group prudently classified the assets of this industry to the non-performing assets.

3.2.5 *Credit Quality and Changes in Allowances for Finance Lease Receivables*

The following table sets forth a summary of allowance for impairment losses of finance lease receivables as of the dates indicated. The Group applies the ECL model to calculate the loss allowance in accordance with IFRS 9, Financial instruments. The allowances for finance lease receivables increased by RMB28.8 million from RMB108.8 million as of December 31, 2018 to RMB137.6 million as of December 31, 2019.

	As of December 31,			
	2019		2018	
	RMB'000	**% of total**	RMB'000	% of total
Allowances for Non-performing assets	**58,103**	**42.2%**	55,893	51.3%
Allowances for Normal and special assets	**79,527**	**57.8%**	52,957	48.7%
Total Allowance for finance lease receivables	**137,630**	**100.0%**	108,850	100.0%
Non-performing assets	**87,120**		71,969	
Ratio of allowances for impairment losses to finance lease receivables	**158.0%**		151.2%	

As of December 31, 2019, ratio of allowances for impairment losses to finance lease receivables was 158.0%, 6.8 percentage points higher than that as of December 31, 2018. The management of the Group believes that prudent risk management policy is crucial to the sustainable business growth and has been dedicated to maintaining this ratio stable at the level.

The following table sets forth the ECL layout as of the dates indicated. The Group has been closely monitoring the credit quality of finance lease receivables that are subject to impairment requirements. As of December 31, 2019, ECL rate of financial lease receivables in stage one, stage two, and stage three was 0.4%, 3.2% and 26.6% respectively. Compared with December 31, 2018.

	As of December 31,			
	Stage 1	Stage 2	Stage 3	
	12-month	Lifetime ECL		
	ECL balance	Not credit-impaired	Credit-impaired	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2019				
ECL rate%	**0.4%**	**3.2%**	**26.6%**	**2.1%**
Net amount of finance lease receivables	**6,074,976**	**74,616**	**412,165**	**6,561,757**
Allowance for impairment loss	**(25,391)**	**(2,422)**	**(109,817)**	**(137,630)**
Carrying amount of finance lease receivables	**6,049,585**	**72,194**	**302,348**	**6,424,127**
2018				
ECL rate%	0.4%	3.5%	28.8%	2.0%
Net amount of finance lease receivables	5,087,000	95,001	303,643	5,485,644
Allowance for impairment loss	(18,185)	(3,336)	(87,329)	(108,850)
Carrying amount of finance lease receivables	5,068,815	91,665	216,314	5,376,794

3.3 Others

As of December 31, 2019, cash and cash equivalents of the Group amounted to RMB252.1 million. The Group retained adequate cash to support business expansion and ensures its liquidity and safety. Pledged and restricted deposit amounted to RMB41.6 million, primarily comprising deposits for bank acceptances, factorings and asset-backed securities.

As of December 31, 2019, other assets of the Group amounted to RMB138.3 million, mainly including advance payments of equipment and deductible value-added tax under direct leases.

As of December 31, 2019, deferred tax assets of the Group amounted to RMB43.6 million, mainly including the deferred income tax provided for the temporary difference between accounting and taxation.

As of December 31, 2019, property and equipment of the Group amounted to RMB22.3 million, mainly including right-of-use assets and office equipment and computers for our employees.

As of December 31, 2019, interest in associates of the Group amounted to RMB49.5 million, which was long-term equity investment in Beijing Zhongnuo and Jiangsu Zhongnuo.

As of December 31, 2019, financial assets at fair value through other comprehensive income of the Group amounted to RMB11.0 million, which was the strategic investment in Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd.

As of December 31, 2019, intangible assets of the Group amounted to RMB6.4 million, mainly including software used in our business operations and risk management functions.

3.4 Liabilities (Overview)

As of December 31, 2019, total liabilities of the Group amounted to RMB5,596.7 million, representing an increase of RMB915.5 million or a growth rate of 19.6% as compared to December 31, 2018. Borrowings were the main component of the liabilities, accounting for 74.3%, representing an increase in leverage as compared to 70.9% as of December 31, 2018.

In 2019, the Group made better use of financial leverage for its operation while closely monitored potential liquidity risk. As of December 31, 2019, the liability to asset ratio was approximately 80.1% (December 31, 2018: 78.4%). The risk asset to equity ratio was approximately 480.9% (December 31, 2018: 437.6%).

The following table sets forth the liability analysis as of the dates indicated.

	As of December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Borrowings	4,158,382	74.3%	3,319,747	70.9%	25.3%
Trade and other liabilities	1,423,853	25.4%	1,349,051	28.8%	5.5%
Income tax payable	14,494	0.3%	12,397	0.3%	16.9%
Total liabilities	5,596,729	100.0%	4,681,195	100.0%	19.6%

3.5 Borrowings

In 2019, the global economic growth slowed down, and despite signs of stabilization, major central banks accommodated monetary policies to the downside risks. China's economy maintained the steadily advancing momentum, and its structure has been continuously optimized. GDP grew by 6.1%, as compared to 2018. However, risks and challenges from both at home and abroad mounted, and the downward economic pressure increased under the pressure of the current global economic climate and the US-China trade friction.

In respect of the domestic monetary policies, the People's Bank of China maintained prudent monetary policies, adopted flexible monetary policy tools such as medium-term lending facility and loan prime rate, promoted to reduce the actual loan interest rate and allocate more credit resources to small-and-micro enterprises and private enterprises, while maintaining the overall market liquidity at a reasonable level. Future monetary policies are expected to remain prudent, focusing on flexibility and moderation as well as strengthening counter-cyclical adjustments, to make the financial sector effectively drive the development of the real economy.

Despite the sluggish economy, the Group has been committed to serving technology and new economy companies in China and made good progress in both indirect financing and direct financing.

As of December 31, 2019, borrowings of the Group amounted to RMB4,158.4 million, representing an increase of RMB838.7 million or a growth rate of 25.3% as compared to December 31, 2018, primarily to support the expansion of business scale.

With respect to direct financing market, the Group had launched four asset-backed securities programs worth RMB2.81 billion (including the asset-backed securities held by ourselves), as of December 31, 2019 and since our inception, and actively prepared for the issuance of diversified financing products, such as debt financing vehicles and asset-backed commercial paper.

With respect to indirect financing market, the Group has established long-term and stable cooperative relationship with over 20 commercial banks, planning to develop multi-dimensional marketing strategies in the future to integrate, optimize and upgrade existing cooperation channels, and further strengthen strategic cooperative relationship. Meanwhile, the Group will continue to expand and perfect the channels of diversified financing, including small and medium banks and foreign banks.

In conclusion, the Group has established and will continue to improve its solid relationships with diverse funding sources. In the future, leveraging on our favorable business performance and growth potential, the Group believes our credit rating will gradually upgrade and competitiveness on funding cost will be further improved.

The following table sets forth a breakdown of borrowings as of the dates indicated. The increase in the proportion of the pledged loans was mainly due to the increased proportion of long-term funding. By timely adjustment of funding structure, the Group continuously optimized the balancing of financial assets and financial liabilities.

	As of December 31,				
	2019		2018		**Changes**
	RMB'000	**% of total**	RMB'000	% of total	
Bank loans	**1,884,132**	**45.3%**	1,414,152	42.6%	33.2%
– collateralized	**–**	**–**	7,000	0.2%	(100.0%)
– pledged	**1,272,332**	**30.6%**	616,445	18.6%	106.4%
– unsecured	**611,800**	**14.7%**	790,707	23.8%	(22.6%)
Borrowings from related parties[(1)]					
– pledged	**1,200,000**	**28.9%**	1,318,000	39.7%	(9.0%)
Asset-backed securities	**1,074,250**	**25.8%**	587,595	17.7%	82.8%
Total borrowings	**4,158,382**	**100.0%**	3,319,747	100.0%	25.3%

Notes:

(1) Refer to pledged loans from the ZGC Group and its subsidiaries.

As of December 31, 2019, the outstanding balance of bank loans was RMB1,884.1 million, accounting for 45.3% of the total borrowings, which was slightly higher as compared to December 31, 2018. The proportion of the balance of borrowings from related parties decreased to 28.9% of the total borrowings, representing a decrease of RMB118.0 million compared with December 31, 2018; and the balance of asset-backed securities accounted for 25.8% of the total borrowings, representing an increase of RMB486.7 million compared with December 31, 2018. To further expand our funding sources, the Group plans to actively explore financing products such as asset-backed securities and super short-term commercial paper.

The following table sets forth the distribution of borrowings by liquidity as of the dates indicated.

	As of December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Current	2,649,676	63.7%	2,263,118	68.2%	17.1%
Non-current	1,508,706	36.3%	1,056,629	31.8%	42.8%
Total borrowing	4,158,382	100.0%	3,319,747	100.0%	25.3%

As of December 31, 2019, the current proportion of borrowings (including short-term borrowings and portions that are due within one year in long-term borrowings) accounted for 63.7% of total borrowings, edging down from 4.5 percentage points as compared to December 31, 2018. The Group maintained a sound and reasonable funding structure.

Details of the types of instruments used, maturities and interest rates structure of the borrowings are also set out in Note 21 to the consolidated financial statements.

3.6 Trade and Other Liabilities

Trade and other liabilities of the Group primarily includes guaranteed deposits from lessees, value-added taxes to be collected in the following period, accounts payables and notes payables, and lease liabilities.

Trade and other liabilities of the Group increased from RMB1,349.1 million as of December 31, 2018 to RMB1,423.9 million as of December 31, 2019, representing a year-on-year growth of 5.5%. This increase was primarily due to the increase of guaranteed deposits from lessees.

3.7 Capital and Reserves

As of December 31, 2019, total equity attributable to equity shareholders of the Group was RMB1,392.3 million, representing an increase of RMB104.5 million or a year-on-year growth of 8.1% from that as of December 31, 2018.

The following table sets forth the details of total equity as of the dates indicated.

	As of December 31,				
	2019		2018		Changes
	RMB'000	% of total	RMB'000	% of total	
Share/paid-in capital	1,000,000	71.8%	1,000,000	77.7%	0.0%
Reserves	392,256	28.2%	287,761	22.3%	36.3%
Total equity	1,392,256	100.0%	1,287,761	100.0%	8.1%

4 CAPITAL EXPENDITURES

The capital expenditure of the Group was RMB55.0 million in 2019, primarily including expenditures for equity investments, upgrading information system regarding business operations and risk management, and purchase of office and electronic equipments.

5 RISK MANAGEMENT

The Group has established a set of prudent, efficient and innovative risk management structure designed to balance the risks with benefits generated in the process of serving technology and new economy companies. While driving the growth of technology and new economy companies with continued efforts, the Group achieved its maximum value.

The Group has been exposed to various operational risks, primarily including credit risks, interest rate risks and liquidity risks.

5.1 Credit Risks

Credit risks arise from our customers' failure to perform their payment obligations under the lease agreements or material and adverse changes in their creditworthiness. Credit risks could materialize and negatively impact our revenues, cash flow, and book value of lease receivable asset. To manage and control the amount of credit risks to which we are exposed, we have established specialized and streamlined credit risk management policies and procedures.

Strict Selection Mechanism of Industries and Customers

We adhered to the constant principles of evaluating industries and customers with strict criteria prior to the project initiation, which marked the first step of credit risk management and control. Our business project teams continuously researched and monitored the technology and new economy industries they specialized in and served selected technology and new economy industries that fit the Chinese policies and with sufficient development space, bright prospects and industrial creditworthiness. We quantified each individual customer's ricks and strived to lower our exposures to credit risks with regards to new customers by carefully selecting leased assets and designing finance lease solutions with an eye towards ensuring the quality of finance lease receivables and reducing the possibility of impairments or losses.

Comprehensive Principle Credit Rating Model

The greatest value of technology and new economy companies lies in their growth potentials, which is also an effective guarantee to defuse risks. We have formulated three different rating models based on the types of potential customers, including the general service-oriented company model designed for service oriented companies, the general manufacturing company model designed for manufacturing companies, and the new enterprise model designed for companies with less than two years of operation history. The assessment result of each individual customer has been based on a score that takes into account both quantitative and qualitative factors. In particular, our quantitative factors included size, growth, business operation, profitability, debt repayment and liquidity, while our qualitative factors covered government policy, market size and potential, competitiveness, management capabilities and equity financing. These factors, together with the weights assigned to them, generated a final score for a potential customer, which enabled the business project teams and those in charge of project assessment and approval to make decisions based on quantifiable, visible and verifiable information.

Comprehensive Project Due Diligence Structure

Our project due diligence structure comprises project due diligence, project assessment and leased asset assessment, and a report for each process will be prepared. The due diligence report is a thorough analysis of each individual customer's project related information, corporate information, financial information, credit history, use of funds, risk assessment and operational recommendations, prepared by our business project teams on the basis of on-site and off-site due diligence investigations. Based on the information collected by our business project teams and included in the project due diligence report, our project assessment team conducted further risk assessments and prepared the project assessment report. For the leased asset report, our asset management team primarily assessed the genuine existence of the leased assets, the reasonableness of their prices and the clarity of their legal ownerships, and further determined whether the leased assets would maintain its value and whether they could be effectively controlled and efficiently disposed of.

Rigorous Project Assessment and Approval Procedures

We have summed up the successful practice and experience of project assessment and approval. To properly and sufficiently assess the potential risk exposures with regards to each lease project, we have adopted a three-vote decision-making mechanism in selecting customers, initiating projects and conducting due diligence investigations. The three-vote decision-making mechanism in principle required business decisions regarding project initiations and due diligence investigations activities be made by at least three designated senior employees from relevant teams, which scientifically ensured the fairness of our decisions. Specialization is another key feature of our project assessment procedures. We encouraged our risk assessment personnel to supplement their industry knowledge with research on recent developments and emergence of new risks. Each of our managers was responsible for assessing projects from the industry in which they specialize. In addition, our project assessment committee members also possessed specialized experience and expertise in their respective functional areas. The project assessment committee assigned five committee members to assess each lease project, including at least one principal committee member and other regular committee members. Committee members generally discussed project information and cast votes in open sessions where all of our employees may attend. Such open sessions effectively ensured the openness and fairness of our decisions, and also promoted our employees' understanding of leased projects.

Complete Post-lease Management Structure

Our post management structure comprises leased asset management, customer business operation monitoring, lease receivable classifications and disposal of non-performing assets. We have established a comprehensive set of leased assets management policies and procedures, adopted various measures to publicly demonstrate our rights over the leased assets, primarily included leased assets ownership registration with relevant business administrative authorities and placing visible marks. In addition, we required our customers to purchase insurance to enhance protection of leased assets and designate us as the sole or first priority beneficiary, and periodically inspected the operating status of the leased assets. We closely monitored the business operations of our customers during the lease terms in an effort to early-detect credit risk indicators which might trigger potential delinquencies, enabling us to prepare for subsequent delinquency related strategies and exit strategies. We also closely monitored the quality of our lease receivables and classified finance lease receivables into five categories, namely normal, special mention, sub-standard, doubtful and loss. In case of non-performing assets, we promptly initiated leased asset disposal activities, including initiating legal actions, attaching leased assets and selling leased assets on the market. Our focus on serving technology and new economy companies enabled us to establish a network of readily available potential buyers for our specialized leased assets.

5.2 Interest Rate Risk

The Group's interest rate risk arises from the mismatch between the maturity date of interest-generating assets and interest-bearing liabilities and the contract repricing date. The risk of changes in the cash flow of financial instruments caused by the Group's interest rate changes is mainly related to financial lease. The Group adopts the following measures to manage its interest rate risk:

- Optimizing the time difference between the maturity dates of interest-generating assets and interest-bearing liabilities and the contract repricing date; and

- Managing the difference between the pricing of interest-generating assets and interest-bearing liabilities and the benchmark interest rate of the People's Bank of China.

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield rate on the Group's retained profits, based on the Group's positions of interest-generating assets and interest-bearing liabilities as of the dates indicated.

	Increase/decrease in retained profits	
	2019	2018
	RMB'000	RMB'000
Changes in basic points		
+ 100 basic points	**6,099**	5,595
– 100 basic points	**(6,099)**	(5,595)

5.3 Liquidity Risk

Liquidity risk refers to our potential failure to secure sufficient funding at reasonable costs, leading to our failure to satisfy our various payment obligations and to support our business operations and expansions.

In terms of liquidity risk management, the Group held cash and equivalents that the senior management considered sufficient and implemented comprehensive policies and process monitoring to meet our operating and sustainable development needs. Our management supervised the use of financing and ensured compliance with corresponding financing agreements.

As of December 31, 2019, the liquidity position of the Group has been sound. By assessing and monitoring the liquidity situation, the Group allocated financial assets and financial liabilities as a whole to improve its ability to ensure liquidity at a reasonable cost in a timely manner.

The following table sets forth the remaining contractual maturities as of the dates indicated of our financial assets and financial liabilities based on contractual undiscounted cash flows and the earliest date we may be required to pay.

	Indefinite/ Overdue/ on demand RMB'000	Within1 month RMB'000	1 to 3 months RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
As of December 31, 2019							
Total financial assets	**617,271**	**258,225**	**713,042**	**2,640,341**	**3,207,465**	**–**	**7,436,344**
Total financial liabilities	**83,039**	**185,630**	**512,930**	**2,539,391**	**2,293,678**	**–**	**5,614,668**
Net liquidity gap	**534,232**	**72,595**	**200,112**	**100,950**	**913,787**	**–**	**1,821,676**
As of December 31, 2018							
Total financial assets	561,881	180,999	603,377	2,159,618	2,826,944	–	6,332,819
Total financial liabilities	26,353	243,508	207,223	2,817,193	1,313,308	3,347	4,610,932
Net liquidity gap	535,528	(62,509)	396,154	(657,575)	1,513,636	(3,347)	1,721,887

5.4 Foreign Currency Risk

The functional currency of the Group is RMB. The majority of the Group's revenue and expenditures are denominated in RMB. The Group currently does not have any foreign currency hedging policies. The management will continue to monitor the Group's foreign exchange risk exposure and consider adopting prudent measures as appropriate.

6 PLEDGE OF GROUP ASSETS

As of December 31, 2019, the Group held finance receivables of RMB3,582.7 million pledged to secure borrowings, and cash of RMB41.6 million pledged for bank acceptances, factorings and asset-backed securities.

	As of December 31, 2019 RMB'000	2018 RMB'000
Pledged finance receivables		
For factorings	**623,304**	642,568
For loan borrowings	**1,864,590**	1,316,345
For asset-backed securities	**1,094,836**	547,195
Pledged and restricted deposits	**41,564**	27,238
Total pledged assets	**3,624,294**	2,533,346

7 MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS

In 2019, the Group made investment to Beijing Zhongnuo and Jiangsu Zhongnuo as its associates. According to the cooperation agreement, the Group subscribed for RMB3.9 million in the registered capital of Beijing Zhongnuo, holding 39% of its equity interest, and made an actual contribution of RMB0.8 million; and subscribed for RMB98.0 million in the registered capital of Jiangsu Zhongnuo, holding 49% of its partnership interest, and made an actual contribution of RMB49.0 million.

Saved as disclosed in this annual report, there were no material investments and material acquisitions or disposals of subsidiaries, associated companies and joint ventures by the Group during the year ended December 31, 2019.

8 HUMAN RESOURCES

8.1 Staff and Remuneration

As of December 31, 2019, the Group had a total of 110 employees, with approximately 99.1% of our staff holding bachelor's degrees or above, and approximately 60.9% holding master's degrees or above (42 employees obtained bachelor's degrees; 64 employees obtained master's degrees; and 3 employees obtained doctor's degrees). Approximately 10.9% (12 employees) have intermediate professional titles or above; and approximately 4.5% (5 employees) have associate senior professional titles or above, as of December 31, 2019.

The turnover rate of our staff is low. Approximately 26% of our staff have been worked for the Group for over five years. We did not experience any material labour disputes during the year ended December 31, 2019.

During the year ended December 31, 2019, the staff costs amounted to approximately RMB64.1 million (2018: approximately RMB49.2 million).

8.2 Incentive Schemes

We have established and implemented flexible and efficient employee incentive schemes to correlate the remuneration of our employees with their overall performance and contribution to the Group and have established a performance-based remuneration awards system that combines their performance and accomplishment of work targets. Employees of the Group are promoted in terms of positions, seniority, overall performance, as well as professional and administrative classification, with a clear career path. We implement comprehensive performance evaluations and well-directed training programs for all staff every year, in accordance with our business objective obligations and achievement of key objectives. During the year ended December 31, 2019, the Group did not adopt any share option scheme.

8.3 Employee Benefits

In accordance with applicable PRC regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees. We also provided supplemental commercial medical insurance and accident insurance in addition to those required under the PRC regulations.

8.4 Employee Training

The Group valued staff training and established a preliminary training system based on job competency. The Group organized various training sessions on general management, operating management and professional skills, covering employees of all levels from front-line staff to senior management. The Group also implemented the plan for the cultivation of cadres and young talents.

9. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

9.1 Contingent Liabilities

As of December 31, 2019, the Group did not have material contingent liabilities.

9.2 Capital Commitments and Credit Commitments

The following table sets forth capital commitments and non-cancellable credit commitments for the year ended indicated.

	Year ended December 31,	
	2019	2018
	RMB'000	RMB'000
Credit commitments(1)	**60,810**	248,530
Capital commitments(2)	**52,120**	–

Notes:

(1) The Group's non-cancellable credit commitments are primarily finance leases that have been contracted, but not yet commenced.

(2) As at December 31, 2019, the unpaid capital commitment to Beijing Zhongnuo and Jiangsu Zhongnuo was RMB3.1 million and RMB49.0 million respectively.

10 USE OF PROCEEDS FROM THE GLOBAL OFFERING

The H shares of the Company have been listed on the Stock Exchange since January 21, 2020. The Group received net proceeds (after deduction of underwriting commission and related costs and expenses) from the global offering of approximately HK$452.6 million.

As at the date of this annual report, the Company does not anticipate any changes to its plan on the use of proceeds as stated in its prospectus dated December 31, 2019.

11 BUSINESS OUTLOOK

While the successful listing on the Stock Exchange opens a new chapter in the Group's development, there are still profound and complicated changes ahead in the external environment and domestic economic conditions, in terms of the uncertainties over the global economy, ongoing China-US trade friction, increasing downward pressure on the domestic economy and the outbreak of COVID-19.

Management Discussion and Analysis

While taking proactive measures to tackle the complex and difficult situation, we believe that there are new opportunities within the challenges arising from the COVID-19 outbreak. Although customers with extensive presence in or direct ties to affected areas are in face of an increasing short-term liquidity risks, which may put downward pressure on the Group's asset quality and impact short-term operating results to a certain extent, we believe as the situation evolves in the medium-to-long term, companies with high growth will gradually recover from liquidity shortage and still be favorable by the market. Furthermore, the outbreak has generated new business models and industry chains, such as Internet+ medical services, industrial automation and etc., to which the Group will pay close attention.

Looking forward, the Group will continue to adhere to the strategic position of serving the Chinese technology and new economy companies, strengthen business specialization in the big data, eco-solutions, life sciences & healthcare, intelligent manufacturing and the internet-based products & services industries, and attach special importance to financial technology innovation. We will continue to promote digital and intelligent business operation, improve our principal credit rating model, lease receivable rating model and risk alert classification system, and strengthen cooperation with fintech companies. We will continue to maximize our customer's value, through expanding the scale of customer base in the five industries and cultivate the customers of high growth, thereby create greater value for all shareholders, our staff and all parties of the society.

Corporate Governance Report

1. CORPORATE GOVERNANCE PRACTICE

H Shares were listed on the Stock Exchange since January 21, 2020. Since the Listing Date, the Company has adopted the principles and code provisions of the CG Code as contained in Appendix 14 to the Listing Rules as its basis of corporate governance practices. Therefore, the CG Code is not applicable to the Company before the Listing Date. To the best knowledge of the Directors, the Company complied with all applicable code provisions under the CG Code during the period from the Listing Date and up to the date of this annual report.

The Board will continue to review and improve the Company's corporate governance practice to ensure its compliance with the CG Code.

2. THE BOARD

2.1 Duties and Division of Responsibility

The Board shall be accountable to the general meeting and perform the following duties and powers as conferred by the Articles of Association:

(I) to convene the general meeting and report its performance at the general meetings;

(II) to implement resolutions adopted at the general meetings;

(III) to make decisions on the Company's business plans and investment plans;

(IV) to formulate the Company's annual financial budgets and annual final accounting plans;

(V) to formulate the Company's profit distribution plans and loss recovery plans;

(VI) to formulate the proposals on the increase or reduction of the Company's registered capital and the proposals on the issuance of corporate bonds or other securities and listing plans;

(VII) to formulate the plans for merger, division, dissolution and other changes in corporate form of the Company;

(VIII) to determine the establishment of internal management departments of the Company;

(IX) to appoint or dismiss the general manager and the board secretary of the Company, and to appoint or dismiss other senior management members of the Company as nominated by the general manager and to determine their remunerations;

(X) to formulate the basic management system of the Company;

(XI) to formulate the proposals for any amendment to the Articles of Association;

(XII) to propose the engagement or replacement of accounting firm which undertakes the audit business of the Company to the general meeting;

(XIII) to determine the external guarantee matter of the Company other than those to be considered by the general meeting;

(XIV) to determine the purchase or sale of major assets of the Company within one year, or the amount of guarantee, which does not exceed 30% of the most recently audited total assets of the Company;

(XV) to approve the connected transaction which shall be approved by the Board in accordance with the requirements of the laws, administrative regulations, the listing rules of the stock exchange on which the shares of the Company are listed and the Articles of Association;and

(XVI) other duties and powers granted by the requirements of the laws, regulations, the listing rules of the stock exchange on which the shares of the Company are listed and the general meeting.

The Board has delegated the authority and responsibility of day-to-day management and operation of the Group to the senior management of the Company.

To oversee particular aspects of the Company's affairs, the Board has established four Board committees, including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Control Committee. The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference. The terms of reference of each of the Board Committees are published on the websites of the Stock Exchange and the Company.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

2.2 Chairman of the Board and General Manager

In accordance with code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not have the position of chief executive officer, the duties of which are performed by the general manager of the Company. The chairman of the Board and the general manager of the Company are Mr. DUAN Hongwei, a non-executive Director, and Mr. HE Rongfeng, an executive Director, respectively.

In accordance with the Articles of Association, the chairman of the Board shall perform the following duties and powers:

(I) to preside over the general meetings, and to convene and preside over Board meetings;

(II) to inspect the implementation of the resolutions of the Board;

(III) to sign the securities issued by the Company;

(IV) to sign the legally binding and important documents with external parties on behalf of the Company; and

(V) other duties and powers granted by the Board.

If the chairman of the Board is unable to perform his or her duties and powers, a Director elected jointly by half or more of the Directors shall perform the chairman of the Board's duties and powers on his or her behalf.

The Company shall have one general manager, who shall be appointed or dismissed by the Board. In accordance with the Articles of Association, the general manager of the Company shall be accountable to the Board and may exercise the following powers:

(I) to be in charge of the management of production and operation of the Company and to organize the implementation of the resolutions of the Board;

(II) to organize the implementation of the annual business plans and investment plans of the Company;

(III) to draft proposals for the establishment of internal management bodies of the Company;

(IV) to draft the basis management system of the Company;

(V) to formulate the basic rules and regulations of the Company;

(VI) to propose the appointment or dismissal of the deputy general manager, head of finance team and head of risk management team of the Company;

(VII) to appoint or dismiss the management personnel other than those required to be appointed or dismissed by the Board; and

(VIII) other duties and powers granted by the Articles of Association and the Board.

There is a clear division of responsibilities between the chairman of the Board and the general manager of the Company, which provides a balance of power and authority, according to the Articles of Association.

2.3 Composition of the Board

As at the Listing Date, the Board consisted of nine Directors, including two executive Directors namely, Mr. HE Rongfeng (general manager) and Mr. HUANG Wen, four non-executive Directors namely, Mr. DUAN Hongwei (chairman of the Board), Mr. LOU Yixiang, Mr. ZHANG Shuqing and Mr. LI Peng, and three independent non-executive Directors namely, Mr. CHENG Dongyue, Mr. WU Tak Lung and Ms. LIN Zhen. The term of appointment of each of the Directors (including non-executive Directors and independent non-executive Directors) is three years commencing from the date when their respective appointments are approved by the Shareholders.

The Board has complied with the requirement of Rules 3.10(1) and 3.10(2) of the Listing Rules to have not less than three independent non-executive directors, including at least an independent non-executive director who has the relevant professional qualification or accounting or related financial management expertise. In accordance with Rule 3.10A of the Listing Rules, at least one-third of the Directors shall be independent non-executive directors. The Company had three independent non-executive Directors since the Listing Date, representing one-third of the total number of directors and was in compliance with the relevant requirement.

The Company has received from each of independent non-executive Directors a confirmation of his/her independence according to Rule 3.13 of the Listing Rules during the period from the Listing Date and up to the date of this annual report. The Company confirmed that all independent non-executive Directors are independent in accordance with Rule 3.13 of the Listing Rules.

To the best knowledge of the Directors, there is no financial, business, family or other relationship between the Directors, the Supervisors, the chairman of the Board, the general manager and the senior management of the Company.

2.4 Corporate Governance Functions

The Board delegated to the Audit Committee to perform the corporate governance duties set out in the code provision D.3.1 of the CG Code, as below:

- formulating and reviewing the corporate governance policies and practices of the Company, and making recommendations to the Board;

- reviewing and monitoring the training and continuous professional development of the directors and the senior management;

- reviewing and monitoring the Company's policies and practices on compliance with laws and regulatory requirements;

- formulating, reviewing and monitoring the code of conduct and compliance manual applicable to employees and the directors (if any); and

- reviewing the Company's compliance with the CG Code and disclosures in the Corporate Governance Report.

3. BOARD MEETINGS

In accordance with the Articles of Association, Board meetings shall be convened at least four times a year, and it shall be convened by the chairman of the Board. Notice of Board meetings and extraordinary Board meetings shall be delivered in person, by facsimile, by express delivery service, by registered mail, by electronic mail or paperless office system. The time limit for the delivery of such notices shall be at least fourteen days before the date of a regular Board meeting and at least three days before the date of an extraordinary Board meeting. Where an extraordinary Board meeting needs to be convened in emergency, the notice of meeting may be delivered by telephone or by other verbal means, but the convener shall make explanations at the meeting.

The Board agenda for each meeting is approved by the chairman of the Board following consultation with other Board members and senior management of the Company. In addition, in order to facilitate open discussion with all independent non-executive Directors, the Chairman will meet with the independent non-executive Directors, in the absence of other Directors, at least once annually before a regular Board meeting.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings. Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

A typical Board meeting would consist of:

- the presentation of papers to support decisions requiring Board approval;
- a report by the chairman of each Board Committee on matters arising since the last Board meeting;
- a management report by the general manager providing an update on the results since the last Board meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan; and
- any declarations of interest.

Details of the attendance of Directors in the meetings of the Board, the Board Committees and annual general meetings during the year ended December 31, 2019 are as follows:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee[1]	Remuneration Committee[1]	Nomination Committee[1]	Risk Control Committee[1]	Annual General Meeting
Mr. DUAN Hongwei[2]	5/5	N/A	N/A	N/A	N/A	N/A
Mr. LOU Yixiang[2]	5/5	N/A	N/A	N/A	N/A	N/A
Mr. ZHANG Shuqing[2]	5/5	N/A	N/A	N/A	N/A	N/A
Mr. LI Peng	19/19	N/A	N/A	N/A	N/A	1/1
Mr. HE Rongfeng[2]	5/5	N/A	N/A	N/A	N/A	N/A
Mr. HUANG Wen[2]	5/5	N/A	N/A	N/A	N/A	N/A
Mr. CHENG Dongyue[3]	2/2	N/A	N/A	N/A	N/A	N/A
Mr. Wu Tak Lung[4]	3/3	N/A	N/A	N/A	N/A	N/A
Ms. LIN Zhen[4]	3/3	N/A	N/A	N/A	N/A	N/A
Mr. ZHANG Zhe[5]	14/14	N/A	N/A	N/A	N/A	1/1
Mr. XU Junhua[6]	3/3	N/A	N/A	N/A	N/A	N/A
Mr. DONG Xiaoyu[7]	11/11	N/A	N/A	N/A	N/A	1/1
Mr. YANG Yanwen[5]	14/14	N/A	N/A	N/A	N/A	1/1
Mr. TIAN Anping[5]	14/14	N/A	N/A	N/A	N/A	1/1
Mr. CHEN Gang[5]	14/14	N/A	N/A	N/A	N/A	1/1
Mr. HE Yuanping[5]	14/14	N/A	N/A	N/A	N/A	1/1

[1] Such committees were established on January 21, 2020
[2] Appointed with effect from August 13, 2019
[3] Appointed with effect from September 20,2019
[4] Appointed with effect from August 29,2019
[5] Resigned with effect from August 13, 2019
[6] Resigned with effect from February 22, 2019
[7] Appointed with effect from February 22, 2019 and resigned with effect from August 13, 2019

4. ELECTION OF DIRECTORS

In accordance with the Articles of Association, Directors shall be elected by general meeting, for a term of three years. A Director may be re-elected upon expiry of his/her term of office. Before a Director's term of office expires, the general meeting shall not dismiss him/her from his/her position without due cause. The term of office of a Director shall commence from the date on which he/she takes his/her position to the expiration of the session of the Board he/she serves. Where re-election is not carried out promptly after a Director's term of office expires, the existing Director shall continue to perform the duties owed by a director subject to the laws, administrative regulations, departmental rules and the Article of Association before a new Director is elected to take up the office. No proposal for re-election of Directors will be discussed at the forthcoming AGM of the Company.

The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to the approval by the general meeting.

5. CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed Director receives induction on the occasion of his/her appointment, so as to ensure that he/she has a proper understanding of the business and operations of the Company and is fully aware of his/her responsibilities under applicable laws, rules and regulations and the Group's various governance and internal control policies. All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. All newly appointed Directors will receive the training referred to above and will be provided with "A Guide on Directors' Duties" issued by the Hong Kong Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Details of Directors' continuous professional development during the year ended December 31, 2019 are as follows:

Directors	Reading relevant materials	Attending training on Hong Kong listed issuers' and directors' continuing duties and responsibilities/ Visiting/Interviewing key management
Non-Executive Directors		
Mr. DUAN Hongwei	✔	✔
Mr. LOU Yixiang	✔	✔
Mr. ZHANG Shuqing	✔	✔
Mr. LI Peng	✔	✔
Executive Directors		
Mr. HE Rongfeng	✔	✔
Mr. HUANG Wen	✔	✔
Independent Non-Executive Directors		
Mr. CHENG Dongyue	✔	✔
Mr. Wu Tak Lung	✔	✔
Ms. LIN Zhen	✔	✔

6. INSURANCE FOR DIRECTORS

The Company has arranged appropriate insurance to cover liabilities in respect of legal litigation against its Directors and officers due to corporate activities. The insurance coverage will be reviewed annually.

7. BOARD COMMITTEES

There are four committees under the Board including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Control Committee. The terms of reference of each of the Board Committees have been published on the websites of the Company and the Stock Exchange.

7.1 AUDIT COMMITTEE

The Audit Committee consists of five members, being Mr. CHENG Dongyue, Mr. WU Tak Lung and Ms. LIN Zhen, independent non-executive Directors, Mr. LOU Yixiang and Mr. LI Peng, non-executive Directors. The Audit Committee is chaired by Mr. WU Tak Lung who has a professional qualification in accountancy as required by the Listing Rules.

The primary functions of the Audit Committee include making recommendations to the Board on the appointment, re-appointment and removal of external auditors; reviewing the financial statements, assisting the Board in providing advice and an independent view of the financial reporting process, overseeing the audit process, providing advice and comment to the Board on matters related to corporate governance and performing other duties and responsibilities as assigned by the Board.

As the Company was only listed on the Stock Exchange on January 21, 2020, no Audit Committee meeting was held during the year ended December 31, 2019. However, since the Listing Date and up to the date of this annual report, an Audit Committee meeting was held on March 30, 2020 to review the annual results of the Group for the year ended December 31, 2019, significant issues on the financial reporting and compliance procedures, and to consider the re-appointment of external auditors of the Company and make recommendation to the Board.

The Audit Committee has discussed with the management and the external auditor and reviewed the audited annual consolidated financial statements of the Group for the year ended December 31, 2019 and the annual results. In addition, KPMG, the external auditor of the Company, has independently audited the consolidated financial statements of the Group for the year ended December 31, 2019 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

7.2 REMUNERATION COMMITTEE

The Remuneration Committee consists of five members, being Mr. CHENG Dongyue, Mr. WU Tak Lung and Ms. LIN Zhen, independent non-executive Directors, Mr. DUAN Hongwei, a non-executive Director and Mr. HE Rongfeng, an executive Director. The Remuneration Committee is chaired by Mr. CHENG Dongyue.

The primary functions of the Remuneration Committee include determining the policies in relation to human resources management, reviewing the Company's remuneration policies and determining remuneration packages, bonuses and other compensation payables to Directors and senior management members of the Company.

As the Company was only listed on the Stock Exchange on January 21, 2020, no Remuneration Committee meeting was held during the year ended December 31, 2019.

7.3 NOMINATION COMMITTEE

The Nomination Committee consists of five members, being Mr. DUAN Hongwei, a non-executive Director, Mr. CHENG Dongyue, Mr. WU Tak Lung and Ms. LIN Zhen, independent non-executive Directors and Mr. HE Rongfeng, an executive Director. The Nomination Committee is chaired by Mr. DUAN Hongwei.

The primary responsibility of the Nomination Committee is to make recommendations to the Board in relation to the appointment of Directors and the Board succession.

As the Company was only listed on the Stock Exchange on January 21, 2020, no Nomination Committee meeting was held during the year ended December 31, 2019.

7.4 RISK CONTROL COMMITTEE

The Risk Control Committee consists of five members, being Mr. HUANG Wen, an executive Director, Mr. ZHANG Shuqing, a non-executive Director, Mr. CHENG Dongyue, Mr. WU Tak Lung and Ms. LIN Zhen, independent non-executive Directors. The Risk Control Committee is chaired by Ms. LIN Zhen.

The primary functions of our Risk Control Committee are to conduct research and propose suggestions on our risk management and internal control system in respect of our operations and business development. It is also responsible for supervising the implementation of risk management and internal control measures and process.

As the Company was only listed on the Stock Exchange on January 21, 2020, no Risk Control Committee meeting was held during the year ended December 31, 2019.

7.5 Director Nomination Policy

The director nomination policy of the Company is contained in the terms of reference of the Nomination Committee. The procedure for selection of Directors is as follows:

(I) making researches on the demand of the Company for new directors and senior management and then form written materials;

(II) identifying candidates for directors and senior management within the Company and its wholly-owned companies, majority-owned subsidiaries and affiliated companies as well as in the talent market;

(III) collecting information about the candidates, such as occupation, educational background, professional titles, detailed work experience and all part-time jobs engaged in, and then forming written materials;

(IV) seeking consent from each candidate before nominating him/her as a candidate for director or senior management;

(V) convening a Committee meeting and conducting qualification review on the primary candidates based on requirements for directors and senior management;

(VI) providing suggestions and related materials of the candidates for directors and senior management to the Board prior to the election of new directors and appointment of new senior management; and

(VII) carrying out additional follow-up works in accordance with decisions and feedbacks of the Board.

When assessing and selecting a candidate for Director, the Nomination Committee shall consider the following criteria:

(I) the candidate's character and integrity;

(II) the candidate's qualifications including professional qualifications, skills, knowledge and experience in relation to the Company's business and strategies;

(III) whether the candidate is willing to devote sufficient time to fulfill the duties of being a member of the Board and to serve the other roles of directorship and responsibilities of major commitments;

(IV) compliance with the provision of the Listing Rules in respect of the requirement that the Board shall comprise independent non-executive Directors, and whether such candidates are considered independent with reference to the independence guidelines set out in the Listing Rules;

(V) the policy for diversity of Board members and any measurable objectives adopted by the Board to achieve diversity of Board members; and

(VI) various other factors applicable to the Company's business.

The above factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any persons, as it considers appropriate.

7.6 Board Diversity Policy

The Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level, including gender diversity, as an essential element in maintaining the Company's competitive advantage and enhancing its ability to attract, retain and motivate employees from the widest possible pool of available talent. In reviewing and assessing suitable candidates to serve as a Director, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee will discuss periodically and when necessary, agree on the measurable objectives for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption. At present, the Board has not set any measurable objectives.

8. DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the year ended December 31, 2019, which give a true and fair view in accordance with the Listing Rules, International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Directors are responsible for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

The senior management of the Company has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which have been put to the Board for approval. The Company provides all members of the Board with annual updates on the Company's performance, positions and prospects.

The Directors consider that in preparing the financial statements, the Company has adopted appropriate accounting policies which have been consistently applied and supported by reasonable judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Group for the year ended December 31, 2019 is set out in the section headed "Independent Auditor's Report" in this annual report.

9. DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as contained in Appendix 10 to the Listing Rules as the guideline for carrying out securities transactions by the Directors and Supervisors.

Having made specific enquiry with the Directors and Supervisors, they have confirmed their compliance with the relevant standards stipulated in the Model Code during the period from the Listing Date and up to the date of this annual report.

10. REMUNERATION OF SENIOR MANAGEMENT

During the year ended December 31, 2019, the remuneration of senior management of the Company fell within the following bands:

	Number of individuals
RMB500,000 or below	1
RMB500,001 to RMB1,000,000	4
RMB1,000,001 to RMB2,000,000	1

11. COMPANY SECRETARY

The Company appointed Mr. GAO Wei, the secretary of the Board, as the company secretary of the Company. Mr. GAO Wei confirmed that he received not less than 15 hours of relevant professional training during the year ended December 31, 2019.

12. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is our highest decision-making body on risk management matters, and is ultimately responsible for the effectiveness of our overall risk management policies and procedures. The main responsibilities of the Board include (1) reviewing and approving major risk management policies and procedures, (2) assessing our overall risk exposure, and (3) supervising senior management members who are charged with risk management responsibilities.

The Risk Control Committee is primarily responsible for (1) researching and monitoring our risk management and internal control over our business operations and development, and making proposals for the Board's consideration, (2) offering insights on the characteristics of the risks we face and our risk management strategies, (3) reviewing, discussing and approving our risk management policies and guidance, (4) making decisions on risk levels and the corresponding resource allocations, (5) supervising the implementation of risk management policies and procedures, and (6) assessing the effectiveness of our risk management and internal control systems.

Senior management team consists of key management personnel who primarily bear the following responsibilities under the authorization and supervision of the Board:

(I) establishing a risk management execution team with clear division of duties and working procedures with regards to each type of risk to which our business is exposed;

(II) assessing and monitoring the risk sensitivity, appetite and tolerance, and understanding the risk bottleneck during business operations;

(III) supervising the implementation and execution of risk management policies, procedures and tools;

(IV) identifying deficiencies in the risk management and reporting them to the Board;

(V) investigating major risk events and reporting the results of such investigations to the Board;

(VI) evaluating the performance of employees involved in risk management; and

(VII) supervising and monitoring the implementation and operation of the information technology systems in support of our risk management activities.

The Board determines the risk preference and risk level according to the different risk conditions and unique characteristics of technology and new economy companies and traditional industries to ensure the perfection and effectiveness of risk management and internal monitoring system. The management of the Company implements the risk management and internal monitoring policies formulated by the Board, identifies and evaluates risks, designs, operates and monitors effective risk management and internal monitoring systems.

From the aspect of risk management system construction, take data-driven as the main line, optimize the risk management system, and comprehensively improve the level of risk management and control. During the year ended December 31, 2019, the Company completed the first phase development of the risk management system, becoming the first enterprise to establish an independent risk management system in the leasing industry; deeply optimized the main rating model, enhanced the applicability of the main rating model; developed and completed the debt rating model, and took the lead in establishing a complete project evaluation system in the leasing industry.

From the aspect of internal monitoring system, the Company has built an internal control system covering all aspects of the Company's operation and management, and the Company's internal monitoring system fully absorbs COSO (the Committee of sponsoring organizations of the pathway Commission) risk management framework requirements and the Hong Kong Accounting Union's guidelines on risk management, taking into account the actual situation and business characteristics of the Company, to develop a monitoring framework, which provides a reasonable guarantee for the effectiveness of the Company's business activities, the reliability of its financial reports and compliance with laws and regulations.

The Company established a risk management department, which is mainly responsible for internal control and risk management system construction. The risk management department shall carry out the risk assessment every year and issue the major risk report. Taking into account the risks identified, the annual work plan of internal audit shall be formulated, and the annual internal audit plan and resource utilization shall be agreed with the management. During the year ended December 31, 2019, the risk management department further strengthened the supervision of high-risk areas in the business, carried out special audits such as post project review change and post lease management, and promoted the overall improvement of the Company's management level in key business areas.

During the year ended December 31, 2019, the Company appointed an independent internal monitoring consultant to comprehensively review our internal monitoring and risk management system to improve the overall effectiveness of our internal monitoring system. The scope of consulting services includes corporate governance, financial reporting and information system. During the year ended December 31, 2019, no major defects and control risks were found. Based on the findings of the review, the Company has revised more than 20 systems and continuously promoted the construction of internal control capacity and system.

The Company takes the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong as the Company's basis of identification of inside information, to ensure timely report of inside information to the executive Directors and maintain communication with the Board.

13. INTERNAL AUDIT

The Company has established the Risk Control Committee and, the Audit Committee and risk management department.

The main responsibilities of the Risk Control Committee include supervising the implementation of risk management policies and procedures, reviewing the effectiveness of the Company's risk management and internal control system, etc. The main responsibilities of the Audit Committee include reviewing financial statements, supervising audit procedures, etc.

Risk management department, as a functional department, undertakes the function of internal audit and ensures the independence of personnel allocation and work. During the implementation of internal audit, all businesses and relevant personnel can be consulted without restriction.

14. AUDITORS' REMUNERATION

Independence of the Company's external auditor is very important to Shareholders, the Board and the Audit Committee. The auditor confirms annually to the Audit Committee that they are independent accountants and that they are not aware of any matters which could be reasonably thought to bear on their independence. The Audit Committee will assess the independence of the auditor at least annually.

The Company appointed KPMG as the external auditors of the Company for the year ended December 31, 2019.

The Board and the Audit Committee are satisfied with the independence, objectivity and effectiveness of KPMG, the Company's external auditor, and the effectiveness of its audit procedures. Upon the recommendation of the Audit committee, the Board has proposed that KPMG be re-appointed as external auditor of the Company at the forthcoming AGM. Subject to Shareholders' authorisation, the Board has authorised the Audit Committee to determine the remuneration of KPMG.

The total remuneration paid or payable to KPMG for audit and non-audit services during the year ended December 31, 2019 are as below:

Service Category	Fees Paid/ Payable RMB'000
Audit services	1,792
None audit services	–

15. DIVIDEND POLICY

The Company has adopted a dividend policy on December 20, 2019. The Company may distribute dividends by cash, stock or combination of cash and stock or other ways permitted by laws and regulations. According to the aforesaid dividend policy, the Articles of Association and applicable laws and regulations, the Company's profit distribution plan shall be formulated by the Board and submitted to the general meeting for deliberation after being approved by the Board and the Board of Supervisors, and shall be approved by more than half of the Shareholders with voting rights and attending the general meeting. The Board will declare a dividend (if any) in RMB on a per share basis for H Shares and pay the dividend in Hong Kong dollars. In general, the Company intends to distribute not less than 35% of the annual distributable profits as dividends. All Shareholders have equal rights to obtain distributable profits, and the profits will be distributed in proportion. The Company's future dividend declaration may not necessarily reflect its previous dividend declaration and will be made by the Board at its discretion.

According to the applicable Chinese laws and the Articles of Association, the after tax profits of the Company shall be distributed in the following order:

(1) When the Company distributes the after tax profits of the current year, 10% of the profits shall be withdrawn and included in the Company's statutory reserve fund. If the cumulative amount of the Company's legal accumulation fund is more than 50% of the Company's registered capital, it may not be withdrawn any more.

(2) Where the Company's statutory reserve fund is insufficient to cover the losses of the previous year, the Company shall first use the profits of the current year to cover the losses before drawing the statutory reserve fund in accordance with the provisions of the preceding paragraph.

(3) After the Company withdraws the legal accumulation fund from the after tax profit, it can also withdraw the discretionary accumulation fund from the after tax profit upon the resolution of the general meeting.

(4) The remaining after tax profits after the Company makes up the losses and withdraws the accumulation fund shall be regarded as the distributable profits. In principle, the annual dividend shall not be less than 35% of the distributable profits realized in the current year, and shall be distributed according to the proportion of shares held by the Shareholders, except for those not distributed according to the proportion of shares held in accordance with the Articles of Association. The profit distribution plan of the company shall be formulated by the Board and submitted to the general meeting for deliberation after being approved by the Board, and shall not be adopted until more than half of the Shareholders present have voted for approval. The Board will declare a dividend (if any) in RMB on a per share basis for H Shares and pay the dividend in Hong Kong dollars.

(5) If the general meeting, in violation of the provisions of the preceding paragraph, distributes profits to the shareholders before the Company makes up for the losses and withdraws the statutory reserve fund, the Shareholders must return the profits distributed in violation of the provisions to the Company.

(6) The Shares held by the Company do not participate in the distribution of profits.

16. THE PROCEDURE FOR SHAREHOLDERS TO CONVENE A GENERAL MEETING

As the owners of the Company, Shareholders are entitled to the various rights stipulated by laws, administrative rules and regulations and the Articles of Association. The general meeting is the supreme authority of the Company, through which Shareholders exercise their power.

The Board and senior management of the Company understand that they are representing the interest of all the Shareholders and their first priority is to maintain the stable and continuous growth of Shareholders' investment return in the long run and enhance the competitiveness of the business.

16.1 The Procedure for Shareholders to Convene a General Meeting

In accordance with the Articles of Association, if the Board is unable or fails to fulfill the obligation of convening a general meeting, the Board of Supervisors shall convene and preside over such meeting in a timely manner. If the Board of Supervisors does not convene or preside over such meeting, the Shareholders individually or jointly holding no less than 10% of shares of the Company for no less than 90 consecutive days may convene and preside over such meeting on their own.

Shareholders who request an extraordinary general meeting or a general meeting of a class of shareholders shall comply with the following procedures:

(I) two or more Shareholders who individually or together hold 10% or more of the shares carrying the right to vote in the meeting to be convened can request the Board to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions and resolutions proposed. The Board shall convene the extraordinary general meeting or the class meeting as soon as possible upon receiving such written request(s). The shareholdings referred to above shall be calculated as at the date of request made.

(II) If no notice of convening a general meeting is issued within thirty days after the Board receiving the abovementioned written request(s), the Shareholders making the request(s) can convene a meeting by themselves within four months after the Board receiving the abovementioned written request(s), and the procedures for convening such meeting shall follow the procedures of the general meeting convened by the Board as much as possible.

All reasonable expenses incurred for such meeting convened by the Shareholders as a result of the failure of the Board to convene a meeting as required above shall be borne by the Company and be set off against sums owed by the Company to the defaulting Directors.

16.2 The Procedure for Shareholders of Putting forward Proposals at the General Meeting

In accordance with the Articles of Association, as a general meeting is convened, any Shareholders individually or jointly holding more than 3% of the Company's shares may propose any resolution to the Company. Such Shareholders who individually or together hold more than 3% of the Company's shares may submit an interim proposal in writing to the convener ten days prior to the date of the general meeting. The convener shall then dispatch a supplemental notice of general meeting to announce the interim proposal and submit the interim proposal to the general meeting for consideration, within two days upon receipt of such proposal. Written proposal can be sent by post to the Company's registered office address at Floor 5 & 6, Suite 7, Courtyard 2, No. 1 West Third Ring North Road, Haidian District, Beijing, the PRC or by email at ir@zgclease.com.

16.3 The Procedure for Enquiry from Shareholders to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the investor relations which contact details are as follows:

Address:	Floor 6, Suite 7, Courtyard 2, No. 1 West Third Ring North Road, Haidian District, Beijing, the PRC
Fax:	+86-010-8345-3809
Email:	ir@zgclease.com
Attention:	the Board/company secretary

For the avoidance of doubt, Shareholders must lodge their questions together with their detailed contact information (including full name, contact details and identification) for prompt response from the Company if the Company deems appropriate. Shareholders' information may be disclosed as required by law.

17. COMMUNICATIONS WITH SHAREHOLDERS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company attaches great importance to listening and accepting reasonable suggestions and opinions from Shareholders and investors. To promote effective communication, the Company maintains a website at www.zgclease.com, where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

18. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Except for the adoption of new Articles of Association by the Company with effect from the Listing Date and updating certain contents of the Articles of Association reflecting the issued shares and registered capital of the Company on the Listing Date with effect from February 27, 2020, there was no amendment to the Articles of Association since the Listing Date and up to the date of this annual report.

Report of the Board of Directors

The Board is pleased to present its report together with the audited consolidated annual results of the Company and its consolidated structured entities for the year ended December 31, 2019.

1. BUSINESS REVIEW

1.1 Principal Activities

The Company was established as a limited liability company on November 27, 2012 under the laws of the PRC and is a member of ZGC Group. The Company's H shares were listed on the Stock Exchange since January 21, 2019. The Company is principally engaged in providing efficient finance lease solutions and a variety of advisory services to satisfy technology and new economy companies' needs for financial services at different stages of their growth in China.

As at December 31, 2019, the Company had no subsidiary. An analysis of the Group's revenue and operating profit for the year ended December 31, 2019 by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

1.2 Business Review and Analysis of Key Indicators of Financial Performance

A review of the Group's business during the year ended December 31, 2019, which includes a discussion of the principal risks and uncertainties faced by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during the year, and an indication of likely future developments in the Group's business, could be found in the sections headed "Chairman's Statement", "General Manager's Statement" and "Management Discussion and Analysis" in this annual report. A discussion on relationships with its key stakeholders is included in the sections headed "Management Discussion and Analysis" and "Corporate Governance Report" in this annual report. These discussions form part of this directors' report.

1.3 Environmental, Social and Governance Performance

As a listed company of the Stock Exchange, the Group attaches great importance to the performance of environmental, social and governance responsibilities, and pursues long-term sustainable development. For more information regarding environmental, social and governance of the Company for the year 2019, please refer to the environmental, social and governance report to be issued by the Company. Upon issuance of the report, the report can be accessed or downloaded on the Company's official website.

2. PROFIT DISTRIBUTIONS

2.1 Final Dividend

The consolidated results of the Group for the year ended December 31, 2019 are set out in the Consolidated Statement of Profit or Loss on pages 123 of this annual report.

The Board recommends the payment of a final dividend of RMB0.0375 per share (tax inclusive) for the year ended December 31, 2019, totally approximately RMB50 million, to Shareholders whose names appear on the register of members of the Company on Friday, July 10, 2020. In principle, the payments will be made to holders of Domestic Shares in RMB and to holders of H Shares in HK$. The proposed final dividend is expected to be paid on or around Monday, August 24, 2020, subject to Shareholders' approval at the AGM.

2.2 Taxation

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法實施條例》), Notice on the Issues Concerning the Collection and Administration of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) and Announcement of the State Administration of Taxation on Promulgation of the "Administrative Measures on Entitlement of Non-residents to Treatment under Tax Treaties" (Announcement No. 60 [2015] of the State Administration of Taxation) (《國家稅務總局關於發佈〈非居民納稅人享受稅收協議待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號)) and relevant laws, regulations and regulatory documents, the Company shall, as a withholding agent, withhold and pay individual income tax for the individual holders of H Shares in respect of the 2019 H Shares final dividend to be distributed to them. Overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between mainland China and Hong Kong and Macau. Accordingly, 10% of the dividends to be distributed to the individual holders of H Shares are generally withheld as individual income tax unless otherwise specified by the relevant tax laws, regulations and agreements.

For holders of H Shares who are non-resident enterprises, in accordance with the provisions of the Notice on Issues concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to H Shares holders who are Overseas Non-resident Enterprises (Guoshuihan [2008] No. 897) published by the State Administration of Taxation of PRC (國家税務總局《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知》(國税函[2008]897號)), the enterprise income tax shall be withheld at a uniform rate of 10% by the Company. Non-resident enterprise shareholders may apply for tax refund for the difference in accordance with relevant requirements including tax agreements (arrangements).

3. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, June 18, 2020 to Wednesday, June 24, 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's headquarters and principal place of business in China at Floor 6, Suite 7, Courtyard 2, No. 1 West Third Ring North Road, Haidian District, Beijing, the PRC (for holders of Domestic Shares) or the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) not later than 4:30 p.m. on Wednesday, June 17, 2020, for registration.

For determining the entitlement to the proposed final dividend (subject to approval by the Shareholders at the AGM), the register of members of the Company will be closed from Monday, July 6, 2020 to Friday, July 10, 2020, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's headquarters and principal place of business in China at Floor 6, Suite 7, Courtyard 2, No. 1 West Third Ring North Road, Haidian District, Beijing, the PRC (for holders of Domestic Shares) or the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for holders of H Shares) not later than 4:30 p.m. on Friday, July 3, 2020, for registration.

4. FINANCIAL SUMMARY

A summary of the Company's results, assets and liabilities for the last four financial years is set out on pages 28 to 29 of this annual report. This summary does not form part of the audited consolidated financial statements.

5. PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Company during the year ended December 31, 2019 are set out in Note 13 to the consolidated financial statements to this annual report.

6. SHARE/PAID-IN CAPITAL

Details of the movements in share/paid-in capital of the Company during the year ended December 31, 2019, are set out in Note 23 (b) to the consolidated financial statements of this annual report.

7. EQUITY-LINKED AGREEMENTS

During the year ended December 31, 2019, the Company did not enter into any equity-linked agreement.

8. RESERVES

Details of the movement in the reserves of the Company during the year ended December 31, 2019 are set out in Note 23 (d) to the consolidated financial statements of this annual report.

As at December 31, 2019, the reserves of the Company available for distribution to Shareholders amounted to approximately RMB124.4 million.

9. BORROWINGS

Details of the borrowings during the year ended December 31, 2019, are set out in the section headed "Management Discussion and Analysis" and Note 21 to the consolidated financial statements of this annual report.

10. DONATIONS

During the year ended December 31, 2019, the Company's external charitable donations amounted to RMB20,000.

11. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not have purchased, sold, or redeemed any of the Company's listed securities during the year ended December 31, 2019.

12. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to its existing Shareholders.

13. DIRECTORS

During the period from the end of financial year ended December 31, 2019 and up to the date of this report, the Directors were as follows:

Non-executive Directors

Mr. DUAN Hongwei
Mr. LOU Yixiang
Mr. ZHANG Shuqing
Mr. LI Peng

Executive Directors

Mr. HE Rongfeng
Mr. HUANG Wen

Independent Non-executive Directors

Mr. CHENG Dongyue
Mr. WU Tak Lung
Ms. LIN Zhen

14. SUPERVISORS

During the period from the end of financial year ended December 31, 2019 and up to the date of this report, the Supervisors were as follows:

Mr. ZHANG Jian
Mr. TIAN Anping
Mr. FANG Fang
Mr. LONG Limin
Mr. TONG Chao
Ms. ZHOU Di
Ms. HAN Nana

15. BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company as at the date of this annual report are set out in the section headed "Profile of Directors, Supervisors and Senior Management" to this annual report.

16. PARTICULARS OF SERVICE CONTRACTS

Each of the Directors entered into a service contract with the Company in December 2019. The principal particulars of these service contracts comprise, among other things, (a) the term of three years commencing from the date when their respective appointments are approved by the Shareholders, and (b) termination provisions in accordance with their respective terms.

Each of the Supervisors entered into a contract with the Company in respect of (among other things) compliance with the relevant laws, regulations, the Articles of Association and relevant provisions applicable to arbitrations in the PRC. The term of such contracts is three years commencing from the date when their respective appointments are approved.

Save as disclosed above, none of the Directors or Supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

17. CONTRACT WITH DIRECTORS, SUPERVISORS AND CONTROLLING SHAREHOLDERS

The Company has entered into certain continuing connected transaction framework agreements with ZGC Group, as set out in the section headed "Continuing Connected Transactions" to this annual report. Each of Mr. DUAN Hongwei, Mr. LOU Yixiang, Mr. ZHANG Shuqing, and Mr. ZHANG Jian holds positions in ZGC Group and its subsidiaries other than the Company, but they do not hold any management position within the Company and are not involved in the daily management of the Company. Mr. HE Rongfeng is a director of a subsidiary of ZGC Group, namely Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd. (北京中關村協同創新投資基金管理有限公司), in which the Company owns 15% equity interest. Mr. HE Rongfeng is a director appointed by the Company to Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd., while not being involved in its daily management.

Save as disclosed above, no Director, Supervisor or an entity connected with any Director or Supervisor had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Company. Save as disclosed above, no contract of significance was entered into among the Company or any of its subsidiaries and the Controlling Shareholders or any of their subsidiaries during the year ended December 31, 2019.

18. REMUNERATION OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' and Supervisors' emoluments and emoluments of the five highest paid individuals in the Company are set out in Notes 9 and 10 to the consolidated financial statements of this annual report, respectively.

19. DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended December 31, 2019, none of the Directors had any interest in a business that competed or was likely to compete, either directly or indirectly, with the core business of the Group.

20. NON-COMPETITION AGREEMENT

To avoid any potential competition between the business of the Controlling Shareholders and the Company, on December 20, 2019, each of the Controlling Shareholders entered into a non-competition agreement in favor of the Company (the "**Non-competition Agreement**"), pursuant to which each of the Controlling Shareholders irrevocably undertakes to the Company that it will not and will procure its subsidiaries (except the Company) not to, directly or indirectly (whether in the capacity of principal or agent, whether for its own benefit or jointly with or on behalf of any person, firm or company, whether within or outside China), commence, engage in, participate in or acquire any business which competes or may compete directly or indirectly with the core business of the Company or own any rights or interests in such business within the restricted period. Details of the Non-competition Agreement are set out in the section headed "Relationship with the Controlling Shareholders – Non-competition Agreement" in the Prospectus.

The Controlling Shareholders declared that they complied with the Non-competition Agreement for the period commencing from December 20, 2019 and up to December 31, 2019. The independent non-executive Directors have conducted such review for the period and also reviewed the relevant undertakings and are satisfied that the Non-competition Agreement has been fully complied with.

21. PENSION SCHEME

The Company did not set out pension scheme.

22. INDEMNITY OF DIRECTORS AND SUPERVISORS

At no time during the year ended December 31, 2019 was there any permitted indemnity provision being in force for the benefit of any of the Directors or Supervisors (whether made by the Company or otherwise) or any associated companies (if made by the Company). The Company has arranged appropriate liability insurance coverage for the Directors, Supervisors and officers.

23. MANAGEMENT CONTRACTS

Other than the Directors' appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or in existence as at the end of the year or at any time during the year ended December 31, 2019.

24. LOAN AND GUARANTEE

During the year ended December 31, 2019, the Group did not make any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, Supervisors, senior management, its ultimate controlling shareholder or their respective connected persons.

25. SHARE OPTION SCHEME

The Company did not adopt any share option schemes under Chapter 17 of the Listing Rules.

26. INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SECURITIES

Since the H Shares were listed on the Stock Exchange on the Listing Date, the Company was not required to keep any register under Part XV of the SFO as at December 31, 2019.

As at the date of this annual report, none of the Directors, Supervisors and chief executive of the Company had any interests and/or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

27. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

Since the H Shares were listed on the Stock Exchange on the Listing Date, the Company was not required to keep any register under Part XV of the SFO as at 31 December 2019.

As at the date of the annual report, to the knowledge of the Directors, the following persons (not being Directors, Supervisors and the chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Class of Shares	Nature of interest	Number of Shares interested[1]	Approximate percentage of shareholding of the same class of the Company[1] (%)	Approximate percentage of shareholding in the total shares in issue of the Company[1] (%)
ZGC Group[2]	Domestic Shares	Beneficial owner	600,000,000 (L)		
		Interest of controlled corporation	40,000,000 (L)		
		Total:	640,000,000 (L)	64.00% (L)	48.00% (L)
ZGC Investment Center[3]	Domestic Shares	Interest of controlled corporation	640,000,000 (L)	64.00% (L)	48.00% (L)
Chaoyang SCOMC[4]	Domestic Shares	Beneficial interest	100,000,000 (L)		
		Interest of controlled corporation	100,000,000 (L)		
		Total:	200,000,000 (L)	20.00% (L)	15.00% (L)
Wangjing Development[4]	Domestic Shares	Beneficial owner	100,000,000 (L)	10.00% (L)	7.50% (L)
Nanshan Capital[5]	Domestic Shares	Beneficial owner	99,900,000 (L)	9.99% (L)	7.49% (L)
Nanshan Group Co., Ltd. (南山集團有限司)[5]	Domestic Shares	Interest of controlled corporation	99,900,000 (L)	9.99% (L)	7.49% (L)
Nanshan Villagers' Committee of Dongjiang County, Longkou City (龍口市東江鎮南山村村民委會)[5]	Domestic Shares	Interest of controlled corporation	99,900,000 (L)	9.99% (L)	7.49% (L)
SONG Zuowen (宋作文)[5]	Domestic Shares	Interest of controlled corporation	99,900,000 (L)	9.99% (L)	7.49% (L)
Beijing Enterprises Group Company Limited[6]	H Shares	Interest of controlled corporation	50,952,000 (L)	15.29% (L)	3.82% (L)
Beijing Enterprises Group (BVI) Company Limited[6]	H Shares	Interest of controlled corporation	50,952,000 (L)	15.29% (L)	3.82% (L)

Name of Shareholder	Class of Shares	Nature of interest	Number of Shares interested[1]	Approximate percentage of shareholding of the same class of the Company[1] (%)	Approximate percentage of shareholding in the total shares in issue of the Company[1] (%)
Beijing Enterprises Holdings Limited[6]	H Shares	Interest of controlled corporation	50,952,000 (L)	15.29% (L)	3.82% (L)
Beijing Enterprises Environmental Construction Limited (北控環境建設有限公司)[6]	H Shares	Interest of controlled corporation	50,952,000 (L)	15.29% (L)	3.82% (L)
Beijing Enterprises Water Group Limited (北控水務集團有限公司)[6]	H Shares	Interest of controlled corporation	50,952,000 (L)	15.29% (L)	3.82% (L)
United Crystal Limited[6]	H Shares	Beneficial owner	50,952,000 (L)	15.29% (L)	3.82% (L)
Beijing Haidian State-owned Capital Operation and Management Center (北京市海淀區國有資本經營管理中心)[7]	H Shares	Interest of controlled corporation	36,742,000 (L)	11.02% (L)	2.76% (L)
Beijing Zhongguancun Science City Innovation and Development Co., Ltd. (北京中關村科學城創新發展有限公司)[7]	H Shares	Beneficial owner	36,742,000 (L)	11.02% (L)	2.76% (L)
XIA Shudong (夏曙東)[8]	H Shares	Interest of controlled corporation	32,894,000 (L)	9.87% (L)	2.47% (L)
Shudong Investment Limited[8]	H Shares	Interest of controlled corporation	32,894,000 (L)	9.87% (L)	2.47% (L)
TransCloud Company Limited[8]	H Shares	Interest of controlled corporation	32,894,000 (L)	9.87% (L)	2.47% (L)
China Transinfo Technology Limited (中國車聯網有限公司)[8]	H Shares	Beneficial owner	32,894,000 (L)	9.87% (L)	2.47% (L)
Yusys Technologies Co., Ltd. (北京宇信科技集團股份有限公司)	H Shares	Beneficial owner	22,046,000 (L)	6.61% (L)	1.65% (L)

Notes:

(1) The Company has issued a total number of 1,333,334,000 Shares, comprising 1,000,000,000 Domestic Shares and 333,334,000 H Shares. (L) represents long position.

(2) ZGC Group directly holds 600,000,000 Domestic Shares. ZGC Group is also deemed to be interested in 40,000,000 Domestic Shares held by ZGC Finance, its wholly-owned subsidiary, under the SFO.

(3) Under the SFO, ZGC Investment Center is deemed to be interested in the entire interest held by ZGC Group, a company directly held by it as to 55.4%.

(4) Chaoyang SCOMC directly holds 100,000,000 Domestic Shares. Chaoyang SCOMC is also deemed to be interested in 100,000,000 Domestic Shares held by Wangjing Development its wholly-owned subsidiary, under the SFO.

(5) Under the SFO, Nanshan Group Co., Ltd. (南山集團有限公司) is deemed to be interested in the entire interest held by Nanshan Capital its wholly-owned subsidiary. As Nanshan Group Co., Ltd. is owned as to 51% by Nanshan Villagers' Committee of Dongjiang County, Longkou City (龍口市東江鎮南山村村民委員會) and 49% by Mr. SONG Zuowen (宋作文), respectively, under the SFO, each of Nanshan Villagers' Committee of Dongjiang County, Longkou City and Mr. SONG Zuowen is deemed to be interested in the entire interest held by Nanshan Group Co., Ltd.

(6) United Crystal Limited is a wholly-owned subsidiary of Beijing Enterprises Water Group Limited (北控水務集團有限公司), which is owned as to 41.13% by Beijing Enterprises Environmental Construction Limited (北控環境建設有限公司), a wholly-owned subsidiary of Beijing Enterprises Holdings Limited. Beijing Enterprises Holdings Limited is held as to 7.93% by Modern Orient Limited, a wholly-owned subsidiary of Beijing Enterprises Investment Limited, which is held as to 72.72% by Beijing Enterprises Group (BVI) Company Limited. Beijing Enterprises Investment Limited also directly holds 12.97% of the equity interest of Beijing Enterprises Holdings Limited. As a wholly-owned subsidiary of Beijing Enterprises Group Company Limited, Beijing Enterprises Group (BVI) Company Limited directly and indirectly holds 61.96% of the equity interest of Beijing Enterprises Holdings Limited. Each of Beijing Enterprises Water Group Limited, Beijing Enterprises Environmental Construction Limited, Beijing Enterprises Investments Limited, Morden Orient Limited, Beijing Enterprises Holdings Limited, Beijing Enterprises Group (BVI) Company Limited and Beijing Enterprises Group Company Limited is therefore deemed to be interested in H Shares held by United Crystal Limited under the SFO.

(7) Under the SFO, Beijing Haidian State-owned Capital Operation and Management Center (北京市海淀區國有資本經營管理中心) is deemed to be interested in the entire interest held by Beijing Zhongguancun Science City Innovation and Development Co., Ltd. (北京中關村科學城創新發展有限公司), its wholly-owned subsidiary.

(8) China Transinfo Technology Limited (中國車聯網有限公司) is wholly owned by TransCloud Company Limited, a wholly-owned subsidiary of Shudong Investment Limited, which is wholly owned by Mr. XIA Shudong. Each of TransCloud Company Limited, Shudong Investment Limited and Mr. XIA Shudong is therefore deemed to be interested in H Shares held by China Transinfo Technology Limited.

Save as disclosed above and to the best knowledge of the Directors, as at the date of this annual report, no person (excluding Directors, Supervisors, and chief executives of the Company) had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

28. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended December 31, 2019 was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate.

29. MAJOR AND CUSTOMERS SUPPLIERS

During the year ended December 31, 2019, the Company's largest customers accounted for approximately 2.2% of the Company's total revenue. The Company's five largest customers accounted for approximately 9.6% of the Company's total revenue.

During the year ended December 31, 2019, the Group's largest suppliers accounted for approximately 30.8% of the Company's total cost of sales. The Group's five largest suppliers accounted for 74.1% of the Company's total cost of sales.

Except for disclosure in section "connected transactions" of this report, during the year ended December 31, 2019, none of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest suppliers or the Group's five largest customers.

30. EMPLOYEES AND REMUNERATION POLICY

The Company had 110 employees as at December 31, 2019, as compared to approximately 102 employees as at December 31, 2018. The Company enters into employment contracts with its employees to cover matters such as position, term of employment, wage, employee benefits and liabilities for breaches and grounds for termination.

Remuneration of the Company's employees includes basic salaries, allowances, bonus and other employee benefits, and is determined with reference to their experience, qualifications and general market conditions.

31. RETIREMENT BENEFITS

The employees of the Company are members of the state-managed retirement benefits scheme operated by the PRC government. The employees of the Company are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Company with respect to this retirement benefits scheme is to make the required contributions under the scheme.

Details of the retirement benefits provided by the Group are set out in Note 1(p) of the audited consolidated financial statements for the year.

32. CONTINUING CONNECTED TRANSACTION

The Company entered into certain continuing connected transactions with ZGC Group, which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules for these continuing connected transactions.

The Company complied with the pricing policy of the Company in respect of the continuing connected transactions from entering into such continuing connected transactions and up to December 31, 2019.

ZGC Group holds approximately 48% of the total issued Shares and is one of the Controlling Shareholders. Therefore, ZGC Group is a connected person of the Company.

Financial Lease Framework Agreement

On December 20, 2019, the Company entered into a financial lease framework agreement (the "**Financial Lease Framework Agreement**") with ZGC Group, pursuant to which, the Company and/or its subsidiaries (if any) will provide financial lease services and related advisory services to ZGC Group and/or its associates. The Financial Lease Framework Agreement commenced from the Listing Date until December 31, 2021 and may be renewed by mutual consent.

Certain associates of ZGC Group seek financial lease services and relevant advisory services from the Company from time to time to support their business developments. Since the Company is able to provide financial lease services and advisory services, and it is familiar with financial lease requirements of ZGC Group and its associates, it is expected that ZGC Group and its associates will continue to seek financial lease services and relevant advisory services from the Company.

The table below sets forth the annual caps under the Financial Lease Framework Agreement:

	Proposed Annual Caps (RMB million) For the year ended/ending December 31,		
	2019	**2020**	**2021**
Lease principal to be provided by the Group to ZGC Group and/or its associates	12.0	12.0	12.0
Lease interest	0.9	1.5	1.6
Advisory services fee	1.2	1.2	1.2

The above proposed annual caps are based on the following factors: (1) the historical transaction amounts of financial lease services and relevant advisory services provided by the Company to ZGC Group and its associates. The Company estimates the financial lease demand from ZGC Group and its associates will remain at the same level based on the average lease principal for the three years ended December 31, 2018 and will increase at a rate of approximately 10% from 2019 to 2021 taking into account the general trend in macroeconomic conditions; (2) the Company's existing financial lease contractual arrangement with ZGC Group and its associates; and (3) the expected changes in the financing cost.

Please refer to the section headed "Continuing Connected Transactions" in the Prospectus for further details of the Financial Lease Framework Agreement.

Credit Services Framework Agreement

On December 20, 2019, the Company entered into a credit services framework agreement (the "**Credit Services Framework Agreement**") with ZGC Group, pursuant to which, the Group may request ZGC Group to provide credit services (including, without limitation, entrusted loan) with security over the assets of the Group (including, without limitation, pledge of trade receivables) acceptable to ZGC Group. The Credit Services Framework Agreement commenced from the Listing Date until December 31, 2021 and may be renewed by mutual consent.

As a Controlling Shareholder, ZGC Group has a more thorough understanding of the business development and capital needs of the Company and is able to provide financial services and capital support in a more convenient and efficient manner as compared to other third parties. The credit services will provide the Company an alternative source of finance (in addition to the general banking facilities, and debt and equity securities) on normal commercial terms. The credit services are provided through cash management services by licensed commercial banks in China in accordance with the applicable PRC laws and regulations. The Group also has discretion in selecting other major and independent PRC commercial banks as its financial service provider as it thinks fit and appropriate for the benefits of the Group. As a result, the legitimate interests of the Group in selecting financial service providers will not be jeopardized and will be safeguarded by such condition and discretion.

For the period from January 1, 2020 to the date of first annual general meeting after the Listing, the daily maximum outstanding balances including accrued interest under the Credit Services Framework Agreement are not expected to exceed RMB1,234.2 million. Such transaction cap is determined with reference to (1) the historical transaction amounts with ZGC Group during the Track Record Period, (2) the outstanding amount of the secured entrusted loans from ZGC Group, and (3) the expected growth of the Company's financing obtained or to be obtained from independent commercial banks, financial institutions or other independent sources.

Please refer to the section headed "Continuing Connected Transactions" in the Prospectus for further details of the Credit Services Framework Agreement.

Confirmation of Independent Non-executive Directors

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions disclosed in the section headed "Continuing Connected Transactions" have been reviewed by the independent non-executive Directors, who confirmed that the aforesaid continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation of the Auditor

The auditor of the Company has been engaged to report on the connected transactions of the Company disclosed in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board has received an unqualified letter from the auditor of the Company in accordance with Rule 14A.56 of the Listing Rules containing the auditor's findings and conclusion on the aforesaid continuing connected transactions of the Company, stating that the auditor has not noticed anything that causes it to believe that any of these continuing connected transactions:

(a) have not been approved by the Board;

(b) were not, in all material respects, in accordance with the pricing policies of the Group for the connected transactions involving the provision of goods or services by the Group;

(c) were not entered into in accordance with the relevant agreements governing such continuing connected transactions in all material aspects; and

(d) have exceeded the relevant annual caps as set by the Company.

Related Party Transactions

Details of the related party transactions of the Company for the year ended December 31, 2019 are set out in Note 26 to the consolidated financial statements contained herein.

Save as disclosed above, no related party transactions set out in Note 26 to the consolidated financial statements constitutes disclosable connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions and continuing connected transactions.

33. DEBENTURES ISSUED

As approved by the Shareholders, the Company issued a 3-year ABS with a principal amount of RMB1 billion, carrying a interest rate range from 4.7% to 5.35%, which is listed on Shenzhen Stock Exchange on August 6, 2019. The proceed was mainly used for the Company's operation, contributions to the lease business and repayments of due amount of borrowings.

34. SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules.

35. AUDITORS

There has been no change in auditors since the Listing Date. The consolidated financial statements of the Company for the year ended December 31, 2019 have been audited by KPMG, which will retire, and, being eligible, offer themselves for re-appointment at the forthcoming AGM.

An ordinary resolution for appointment and re-appointment of KPMG (for issuance of audit report in accordance with the international standards) as the international auditors of the Company for the years 2019 and 2020, and KPMG Huazhen LLP (for issuance of audit report in accordance with the standards in the PRC) as the domestic auditors of the Company for the years 2019 and 2020 is to be proposed at the AGM for Shareholders' approval.

36. COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended December 31, 2019, the Company is in compliance with applicable laws and regulations in material respects.

On behalf of the Board
DUAN Hongwei
Chairman
Beijing, March 30, 2020

Report of the Board of Supervisors

1. CONVENTION OF MEETINGS OF THE BOARD OF SUPERVISORS

In 2019, all members of the board of supervisors were devoted to their duties, sought truth from facts, helped the Company to carry out the joint stock reform in an orderly manner, and completed the change of the board of Supervisors. The Board of Supervisors convened three meetings in total, as follows:

(1) On May 25, 2019, the Board of Supervisors convened the 2019 first ordinary meeting of the second session of the Board of Supervisors, in which the Board of Supervisors considered and approved three resolutions, i.e. Assessment Report on Performance Appraisal of the supervisors for the Year 2018, Financial Status for the Year 2018 and Financial Budget in 2019.

(2) After our Company's reorganization into a joint stock company with limited liability, on August 13, 2019, the Board of Supervisors convened the 2019 first extraordinary meeting of the first session, in which one resolution, namely the Election of the Chairman of the First Board of Supervisors, was considered and approved.

(3) On August 29, 2019, the Board of Supervisors convened the 2019 second extraordinary meeting of the first session, in which one resolution, namely Rules of Procedure of the Board of Supervisors, was considered and approved.

2. CONDUCTING SUPERVISION ON OPERATION OF THE COMPANY

The Board of Supervisors supervised and inspected the whole process of convening procedures, resolutions, implementation of resolutions of the Board of Directors and Shareholders' meeting, and performance of directors and senior management of the Company in the year 2019. The Board of Supervisors suggested that the Company's decision-making process is in line with relevant laws, regulations and the Articles of Association, with standardized operation. The company's directors, managers and other senior management are honest and diligent in their work in 2019, loyal to their duties, without any violation of laws, regulations, the Articles of Association and there is no conduct damaging the benefits of the Company and the Shareholders.

3. ORGANISING AND CONDUCTING FINANCIAL SUPERVISION

The Board of Supervisors regularly listened to the financial work report and work plan including major financial indicators and implementation of budget, checked the accuracy, authenticity and integrity of the Company's financial data and expressed independent opinions. The Board of Supervisors proposed suggestion for the reorganization into a joint stock company with limited liability to ensure that the auditor's report and the asset appraisal report truly and objectively reflected the financial status and operation of the Company.

4. CONTINUOUSLY REINFORCING SUPERVISION ON RISK MANAGEMENT

The Board of Supervisors investigated risk control of the Company's business from the source and the internal risk management of middle management, and considered that the Company prevented risks professionally, scientifically and normatively by building a customer credit rating system and improving the internal control system, and the NPA ratios remained at a low level. At the same time, in the process of the joint stock reform and IPO, the Company introduced international intermediaries, actively learned from public companies, standardized the company's policy and process, strengthened the monitoring of connected transactions, and improved the level of risk management.

5. OPTIMIZING THE ESTABLISHMENT FOR THE REGULATORY SYSTEM OF THE BOARD OF SUPERVISORS

The Board of Supervisors continuously promoted the construction of its policy system. On the basis of the appraisal of duty performance, supervision and management and other system, the Board of Supervisors has made the Rules of Procedure of the Board of Supervisors and assisted with the amendments to the related contents of the Articles of Association. These amendments were considered and approved at the general meeting in August 2019. The optimization of certain rules will further inspire the working activity of Supervisors and promote independent supervision performance of Supervisors. The continuous optimization of the rules of the Board of Supervisors also strengthened the supervision functions of the Board of Supervisors, effectively ensuring the standardization and operation of the performance of the Supervisors.

6. OPTIMIZING THE SELF-CONSTRUCTION OF THE BOARD OF SUPERVISORS, AND BOOSTING THE CAPABILITY OF SUPERVISION OF SUPERVISORS

The Board of Supervisors optimized the self-construction, continuously improved the overall working capability of the Board of Supervisors, perfected internal working mechanism, actively carried out resource sharing, innovated working ideas and methods, improved the knowledge and understanding of the Supervisors on the supervision functions of the Board of Supervisors, and put forward reasonable suggestions for the compliance work of our Company in the process of its joint stock reform and after the reform.

On behalf of the Board of Supervisors
ZHANG Jian
Chairman of the Board of Supervisors
Beijing, March 30, 2020

Independent Auditor's Report

To the shareholders of Zhongguancun Science-Tech Leasing Co., Ltd.
*(incorporated in People's Republic of China (the "**PRC**") with limited liability)*

OPINION

We have audited the consolidated financial statements of Zhongguancun Science-Tech Leasing Co., Ltd. (the "**Company**") and its consolidated structured entities (the "**Group**") set out on pages 123 to 216, which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the PRC, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

<table>
<tr><th colspan="2">Allowances for impairment losses of finance lease receivables</th></tr>
<tr><td colspan="2">Refer to the accounting policies in "Note 1(i)(v) to the consolidated financial statements: Credit losses and impairment of assets", "Note 2 to the consolidated financial statements: Accounting judgement and estimates" and "Note 15 to the consolidated financial statements: Finance lease receivables".</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group uses the expected credit loss ("ECL") model to calculate the loss allowance in accordance with IFRS 9, Financial instruments ("IFRS 9"). The Group classifies finance lease receivables into three stages and recognises an impairment allowance based on the expected credit loss for the next 12 months or the entire lifetime of the receivable, depending on whether credit risk on that receivable has increased significantly since initial recognition and whether a receivable is considered to be credit-impaired respectively.

The determination of allowances for impairment losses using the ECL model is subject to a number of key parameters and assumptions, including the identification of the three stages of ECL model, estimates of probability of default, loss given default, exposures at default, adjustments for forward-looking information and other adjustment factors. Management judgement is involved in the selection of those parameters and the application of the assumptions.

We identified the impairment of finance lease receivables as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.</td><td>Our audit procedures to assess allowances for impairment losses of finance lease receivables included the following:

• understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of finance lease receivables, the identification of the three stages of ECL model, and the measurement of impairment loss allowances;

• assessing the reliability of the ECL model used by management in determining allowances for impairment losses, and the appropriateness of the key parameters and assumptions in the ECL model, which includes the identification of the three stages of ECL model, probability of default, loss given default, exposure at default, adjustments for forward-looking information and other management adjustments;</td></tr>
</table>

KEY AUDIT MATTERS (continued)

The Key Audit Matter	How the matter was addressed in our audit
	• assessing the completeness and accuracy of data used for the key parameters in the ECL model: – for key parameters derived from internal data relating to the finance lease agreements, by selecting samples and comparing individual finance lease receivables information with the underlying agreements and other related documentation to assess the accuracy of compilation of the finance lease receivables list; – for key parameters involving judgement, by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral and leased asset. As part of these procedures, we challenged management's revisions to estimates and input parameters compared with prior period and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development.

KEY AUDIT MATTERS (continued)

The Key Audit Matter	How the matter was addressed in our audit
	• for selected samples of finance lease receivables that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral and leased asset, evaluated the forecast cash flows, challenged the viability of the Group's recovery plans and evaluated other credit enhancements that are integral to the contract terms; • recalculating the amount of credit losses for 12 month and life time credit losses using the ECL model based on the above parameters and assumptions for a sample of finance lease receivables where the credit risk of the finance lease receivables has not, or has, increased significantly since initial recognition, respectively; and • evaluating whether the disclosures on allowances for impairment losses of finance lease receivables meet the disclosure requirements in the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Auditor’s responsibilities for the audit of the consolidated financial statements (continued)

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Yuen Shan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 30, 2020

Consolidated Statements of Profit or Loss

For the year ended December 31, 2019
(Expressed in Renminbi ("**RMB**"))

	Notes	2019 RMB'000	2018 (Note) RMB'000
Interest income		**420,698**	340,571
Advisory fee income		**94,642**	72,212
Revenue	3	**515,340**	412,783
Other net income	4	**18,759**	16,331
Interest expense	5	**(220,978)**	(168,012)
Operating expense	6	**(100,190)**	(74,854)
Impairment losses charged	7	**(27,768)**	(27,364)
Share of losses of associates		**(265)**	–
Net foreign exchange losses		**(12)**	–
Profit before taxation		**184,886**	158,884
Income tax expense	8	**(46,630)**	(39,888)
Profit for the year		**138,256**	118,996
Attributable to:			
Equity shareholders of the Company		**138,256**	118,996
Profit for the year		**138,256**	118,996
Basic and diluted earnings per share (in RMB)	11	**0.14**	0.12

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

The notes on pages 130 to 216 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 23(e).

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019
(Expressed in RMB)

	Notes	2019 RMB'000	2018 (Note) RMB'000
Profit for the year		**138,256**	118,996
Other comprehensive income for the year (after tax and reclassification adjustments)	12		
Items that will not be reclassified to profit or loss:			
– Equity investments at fair value through other comprehensive income – net movement in fair value reserves (non-recycling)		**1,239**	1,049
Total comprehensive income for the year		**139,495**	120,045
Attributable to:			
Equity shareholders of the Company		**139,495**	120,045
Total comprehensive income for the year		**139,495**	120,045

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

The notes on pages 130 to 216 form part of these financial statements.

Consolidated Statements of Financial Position

As at December 31, 2019
(Expressed in RMB)

	Notes	**December 31, 2019 RMB'000**	December 31, 2018 (Note) RMB'000
Non-current assets			
Property and equipment	13	**22,348**	703
Intangible assets	14	**6,394**	3,450
Finance lease receivables	15	**2,966,628**	2,635,559
Financial assets at fair value through other comprehensive income	16	**11,026**	9,374
Interest in associates	17	**49,515**	–
Other assets	18	**16**	57
Deferred tax assets	19(b)	**43,621**	36,195
		3,099,548	2,685,338
Current assets			
Finance lease receivables	15	**3,457,499**	2,741,235
Other assets	18	**138,268**	208,525
Pledged and restricted deposits		**41,564**	27,238
Cash and cash equivalents	20	**252,106**	306,620
		3,889,437	3,283,618
Current liabilities			
Borrowings	21	**2,649,676**	2,263,118
Income tax payable	19(a)	**14,494**	12,397
Trade and other liabilities	22	**639,975**	650,263
		3,304,145	2,925,778
Net current assets		**585,292**	357,840
Total assets less current liabilities		**3,684,840**	3,043,178
Non-current liabilities			
Borrowings	21	**1,508,706**	1,056,629
Trade and other liabilities	22	**783,878**	698,788
		2,292,584	1,755,417
NET ASSETS		**1,392,256**	1,287,761

The notes on pages 130 to 216 form part of these financial statements.

Consolidated Statements of Financial Position

As at December 31, 2019
(Expressed in RMB)

	Notes	**December 31, 2019 RMB'000**	December 31, 2018 (Note) RMB'000
CAPITAL AND RESERVES	23		
Share/paid-in capital		**1,000,000**	1,000,000
Reserves		**392,256**	287,761
Total equity attributable to equity shareholders of the Company		**1,392,256**	1,287,761
TOTAL EQUITY		**1,392,256**	1,287,761

Approved and authorised for issue by the board of directors on March 30, 2020.

DUAN Hongwei
Chairman

HE Rongfeng
General manager

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

The notes on pages 130 to 216 form part of these financial statements.

Consolidated Statements of Changes in Equity

For the year ended December 31, 2019
(Expressed in RMB)

	Note	Share/ paid-in capital RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Fair value reserve RMB'000	General reserve RMB'000	Retained profits (Note) RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company						
At January 1, 2019		1,000,000	–	45,396	4,780	43,707	193,878	1,287,761
Changes in equity for 2019:								
Profit for the year		–	–	–	–	–	138,256	138,256
Other comprehensive income		–	–	–	1,239	–	–	1,239
Total comprehensive income		–	–	–	1,239	–	138,256	139,495
Appropriation to statutory reserve	23(d)(i)	–	–	13,814	–	–	(13,814)	–
Dividends approved in respect of the previous year	23(e)	–	–	–	–	–	(35,000)	(35,000)
Conversion into joint stock company	23(c)	–	252,761	(45,396)	(4,780)	(43,707)	(158,878)	–
At December 31, 2019		1,000,000	252,761	13,814	1,239	–	124,442	1,392,256

	Note	Paid-in capital RMB'000	Surplus reserve RMB'000	Fair value reserve RMB'000	General reserve RMB'000	Retained profits (Note) RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company					
At January 1, 2018		1,000,000	32,941	3,731	18,798	147,246	1,202,716
Changes in equity for 2018:							
Profit for the year		–	–	–	–	118,996	118,996
Other comprehensive income		–	–	1,049	–	–	1,049
Total comprehensive income		–	–	1,049	–	118,996	120,045
Appropriation to statutory reserve	23(d)(i)	–	12,455	–	–	(12,455)	–
Appropriation to general reserve	23(d)(iii)	–	–	–	24,909	(24,909)	–
Dividends approved in respect of the previous year	23(e)	–	–	–	–	(35,000)	(35,000)
At December 31, 2018		1,000,000	45,396	4,780	43,707	193,878	1,287,761

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

The notes on pages 130 to 216 form part of these financial statements.

Consolidated Cash Flows Statements

For the year ended December 31, 2019
(Expressed in RMB)

	Notes	2019 RMB'000	2018 (Note) RMB'000
Operating activities			
Profit before taxation		**184,886**	158,884
Adjustments for:			
Investment income	4	**–**	(1)
Share of losses of associates		**265**	–
Interest expense	5	**220,978**	168,012
Depreciation and amortisation	6(b)	**11,378**	764
Impairment losses charged	7	**27,768**	27,364
Gains on disposal of equipment		**–**	(14)
Operating profit before changes in working capital		**445,275**	355,009
Changes in working capital			
Increase in pledged and restricted deposits		**(14,326)**	(15,318)
Increase in finance lease receivables		**(1,076,113)**	(982,686)
Decrease/(increase) in trade and other receivables		**88,879**	(10,359)
Increase in trade and other liabilities		**49,183**	163,562
Cash used in operations		**(507,102)**	(489,792)
PRC income taxes paid	19(a)	**(52,372)**	(52,208)
Net cash used in operating activities		**(559,474)**	(542,000)
Investing activities			
Proceeds from disposal and redemption of investments		**317,696**	317,149
Proceeds from disposal of equipment		**–**	30
Payments on investment in associates		**(49,780)**	–
Payments on other investments		**(317,742)**	(317,382)
Payment for purchase of equipment and intangible assets		**(5,257)**	(1,232)
Net cash used in investing activities		**(55,083)**	(1,435)

The notes on pages 130 to 216 form part of these financial statements.

Consolidated Cash Flows Statements

For the year ended December 31, 2019
(Expressed in RMB)

	Notes	2019 RMB'000	2018 (Note) RMB'000
Financing activities			
Capital element of lease rentals paid	20(b)	**(13,648)**	–
Proceeds from borrowings	20(b)	**3,950,811**	2,378,638
Repayment of borrowings	20(b)	**(3,111,229)**	(1,670,369)
Interest element of lease rentals paid	20(b)	**(1,040)**	–
Payments for listing expenses		**(17,835)**	–
Interest paid	20(b)	**(203,443)**	(144,252)
Other borrowing costs paid	20(b)	**(8,573)**	(5,261)
Dividends paid to equity shareholders of the Company	23(e)	**(35,000)**	(35,000)
Net cash generated from financing activities		**560,043**	523,756
Net decrease in cash and cash equivalents		**(54,514)**	(19,679)
Cash and cash equivalents at the beginning of the year		**306,620**	326,299
Cash and cash equivalents at the end of the year	20(a)	**252,106**	306,620

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

The notes on pages 130 to 216 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

Zhongguancun Science-Tech Leasing Co., Ltd. (the "**Company**"), formerly known as Zhongguancun Science-Tech Leasing Ltd., was established as a limited liability company in Beijing, the People's Republic of China (the "**PRC**"). On August 16, 2019, the Company was converted into a joint stock limited liability company and was renamed to Zhongguancun Science-Tech Leasing Co., Ltd.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards("**IASs**") and Interpretations issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2019 comprise the Company and its consolidated structured entities (see Note 28) (together referred to as the "**Group**") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that that financial assets at fair value through other comprehensive income ("**FVOCI**"), are stated at fair value as explained in Note 1(i).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2.

(c) Changes in accounting policies

The ISAB has issued a new IFRS, IFRS 16, Leases, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving* the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from January 1, 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at January 1, 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after January 1, 2019. For contracts entered into before January 1, 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property and equipment as disclosed in Note 25(c). For an explanation of how the Group applies lessee accounting, see Note 1(h)(i).

At the date of transition to IFRS 16 (i.e. January 1, 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at January 1, 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before December 31, 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at December 31, 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 25(c) as at December 31, 2018 to the opening balance for lease liabilities recognised as at January 1, 2019:

	January 1, 2019 RMB'000
Operating lease commitment at December 31, 2018	24,551
Less: effect of value-added tax	(1,936)
	22,615
Less: total future interest expenses	(1,244)
Lease liabilities recognised at January 1, 2019	21,371

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

The Group did not have any leases previously classified as finance leases at the date of initial application of IFRS 16.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

b. Lessee accounting and transitional impact (continued)

The following table summarises the impacts of the adoption of IFRS 16 on the consolidated statement of financial position:

	Carrying amount at December 31, 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at January 1, 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property and equipment	703	21,371	22,074
Total non-current assets	**2,685,338**	**21,371**	**2,706,709**
Trade and other liabilities (current)	650,263	6,827	657,090
Current liabilities	**2,925,778**	**6,827**	**2,932,605**
Net current assets	**357,840**	**(6,827)**	**351,013**
Total assets less current liabilities	**3,043,178**	**14,544**	**3,057,722**
Trade and other liabilities (non-current)	698,788	14,544	713,332
Total non-current liabilities	**1,755,417**	**14,544**	**1,769,961**
Net assets	**1,287,761**	**–**	**1,287,761**

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at January 1, 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 20(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17.

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result and cash flows for the year ended December 31, 2019, by adjusting the amounts reported under IFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019 instead of IFRS 16, and by comparing these hypothetical amounts for the year ended December 31, 2019 with the actual corresponding amounts for the year ended December 31, 2019 which were prepared under IAS 17.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group (continued)

	2019				2018
	Amounts reported under IFRS 16 (A) RMB'000	Add back: IFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) RMB'000	Hypothetical amounts as if under IAS 17 (D=A+B+C) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Financial result for year ended December 31, 2019 impacted by the adoption of IFRS 16:					
Profit before taxation	184,886	10,940	(14,688)	181,138	158,884
Profit for the year	138,256	10,940	(14,688)	134,508	118,996

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

c. Impact on the financial result and cash flows of the Group (continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Note 1&2) (B) RMB'000	Hypothetical amounts as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported under IAS 17 RMB'000
Line items in the consolidated statement of cash flows for year ended December 31, impacted by the adoption of IFRS 16:				
Cash used in operations	(507,102)	(14,688)	(521,790)	(489,792)
Net cash used in operating activities	(559,474)	(14,688)	(574,162)	(542,000)
Capital element of lease rentals paid	(13,648)	13,648	–	–
Interest element of lease rentals paid	(1,040)	1,040	–	–
Net cash generated from financing activities	560,043	14,688	574,731	523,756

Notes:

1. The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows during the year ended December 31, 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into during the year ended December 31, 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

2. In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, Leases (continued)

d. Lessor accounting

The Group leases out a number of items of machinery as the lessor of financing leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities (including structured entities) controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 1(i) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a consolidated structured entity is stated at cost less impairment losses (see Note 1(o)), unless the investment is classified as held for sale.

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates (continued)

An investment in an associate is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 1(o)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statements of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statements of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate (after applying the ECL model to such other long-term interests where applicable (see Note 1(i)(v))).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates (continued)

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 1(i)).

(f) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 1(o)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– The Group's leased assets are depreciated over the shorter of the unexpired term of lease and the leased assets' estimated useful lives.	
– Electronic equipment	3 years
– Office equipment	5 years
– Others	5-10 years

Where parts of an item of property and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 1(o)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

	Estimate useful lives
Software	5 to 10 years

Both the period and method of amortization are reviewed annually.

(h) Leases assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases assets (continued)

(i) As a lessee

(A) Policy applicable from January 1, 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 1(o)).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from January 1, 2019 (continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to January 1, 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 1(f). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 1(o). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases assets (continued)

(i) As a lessee (continued)

(B) Policy applicable prior to January 1, 2019 (continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis.

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in Note 1(h)(i), then the Group classifies the sub-lease as an operating lease.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments

(i) Recognition and initial measurement

Financial instruments are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 24(d). These investments are subsequently accounted for as follows, depending on their classification.

(ii) Classification and subsequent measurement

Classification of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payments of Principal and Interest ("**SPPI**").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

– the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Classification of financial assets (continued)

For equity investment not held for trading, the Group may irrevocably designate it as financial asset at FVOCI upon initial recognition. The designation is made on an individual basis and the investment is in line with the definition of the equity instrument from the issuer's perspective.

All other financial assets are classified as measured at FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Subsequent measurement of financial assets

Financial assets at FVTPL

These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Classification of financial assets (continued)

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities into financial liabilities at amortised cost, which are subsequently measured at amortised cost using the effective interest method.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(iii) Derecognition (continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Credit losses and impairment of assets

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

– financial assets measured at amortised cost;

– finance lease receivables; and

– credit commitments.

Financial assets measured at FVTPL and equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Credit losses and impairment of assets (continued)

Measurement of ECLs (continued)

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– finance lease receivables: discount rate used in the measurement of the finance lease receivable;

– credit commitments: current risk-free rate adjusted for risks specific to the cash flows

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Credit losses and impairment of assets (continued)

Measurement of ECLs (continued)

For finance lease receivables and other financial instruments (including credit commitments issued), the Group recognises an allowance for impairment losses equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the allowance for impairment losses is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Credit losses and impairment of assets (continued)

Significant increases in credit risk (continued)

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

For credit commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the Group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a credit commitment, the Group considers changes in the risk of default occurring on the loan to which the credit commitment relates.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 1(s)(i) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less allowance for impairment losses) of the financial asset.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial instruments (continued)

(v) Credit losses and impairment of assets (continued)

Basis of calculation of interest income (continued)

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

(j) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, it is the current asking price. The quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Fair value measurement (continued)

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of each reporting period. Where other pricing models are used, inputs are based on market data at the end of each reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 1(i)(v)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 1(i)(v).

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(t)).

(o) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment, including right-of-use assets;
- intangible assets; and
- interest in associates.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment of non-financial assets (continued)

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credit, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of reporting period. Deferred tax assets and liabilities are not discounted.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company and the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 1(i)(v)).

(ii) Advisory fee income

Depending on the nature of advisory services and the contract terms, advisory fee income is recognised at a point in time when the advisory service is completed.

(iii) Government grants

Government grants are recognised in the consolidated statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the assets and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period.

(u) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The directors have determined that the Group has only one single business component/reportable segment as the Group is principally engaged in providing finance leasing service which is the basis to allocate resources and assess performance of the Group.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

– Note 1(i)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

– Note 1(i)(v): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

– Note 1(i)(v): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

2 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

– Deferred tax assets arising from deductible temporary differences are recognised to the extent that it is probable that future taxable income will be available against which deductible temporary differences and tax losses can be utilised. The outcome of their actual utilisation may be different.

– There are no quoted prices from an active market for FVOCI. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

3 REVENUE

The principal activities of the Group are providing finance lease services, and related advisory services to customers in the PRC. The Group has no lessee for the years ended December 31, 2019 and 2018, with whom transactions have exceeded 10% of the Group's aggregate revenues.

No segment information is presented as the Group is principally engaged in a single line of business. Revenue represents interest income and advisory fee net of value added taxes and other charges.

The amount of each significant category of revenue is as follows:

	Notes	**2019** **RMB'000**	2018 RMB'000
Interest income from finance leases		**420,698**	340,571
Advisory fee income	(i)		
– Management advisory fee income		**23,885**	27,860
– Policy advisory fee income		**70,757**	44,352
		515,340	412,783

Note:

(i) Advisory fee income arises from contracts with customers within the scope of IFRS 15, and is recognised at a point in time.

4 OTHER NET INCOME

	Notes	**2019** **RMB'000**	2018 RMB'000
Government grants	(i)	**14,620**	12,791
Interest from deposits		**3,671**	3,417
Investment income		**–**	1
Others		**468**	122
		18,759	16,331

Note:

(i) The government grants were provided to support small and medium enterprises of leasing business, to reward enterprises who develop leasing business based on internet technology and to support enterprises' innovative culture in leasing business. The grants were unconditional and were therefore recognised as income when received.

5 INTEREST EXPENSE

	2019 **RMB'000**	2018 (Note) RMB'000
Borrowings	**113,703**	67,311
Borrowings from related parties	**68,131**	69,173
Imputed interest expense on interest-free guaranteed deposits from lessees	**38,104**	31,528
Interest expense on lease liabilities	**1,040**	–
	220,978	168,012

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

6 OPERATING EXPENSE

Profit before taxation is arrived at after charging:

(a) Staff costs

	2019 RMB'000	2018 RMB'000
Salaries, bonuses and allowances	**50,656**	38,329
Social insurance and other benefits	**13,399**	10,840
Subtotal	**64,055**	49,169

(b) Other items

	Notes	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge			
– owned equipment		**271**	244
– right-of-use assets		**9,900**	–
Amortisation cost of			
– intangible assets		**1,166**	394
– others		**41**	126
Total minimum lease payments for leases previously classified as operating leases under IAS 17	(i)	**–**	9,041
Auditor's remuneration		**1,792**	75
Other rental expenses		**1,065**	436

Note:

(i) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at January 1, 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, as at and for the year ended December 31, 2018 is not restated. See Note 1(c).

7 IMPAIRMENT LOSSES CHARGED

	Notes	2019 RMB'000	2018 RMB'000
Finance lease receivables	15(b)	**28,780**	27,036
Credit commitments	22(a)	**(1,012)**	328
		27,768	27,364

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss:

	Notes	2019 RMB'000	2018 RMB'000
Current tax			
– PRC Enterprise Income Tax ("**EIT**")			
Provision for the year		**54,469**	45,376
Deferred income tax			
– Origination of temporary differences	19(b)	**(7,839)**	(5,451)
Over-provision in respect of prior year		**–**	(37)
		46,630	39,888

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Notes	**2019 RMB'000**	2018 RMB'000
Profit before taxation		**184,886**	158,884
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned		**46,221**	39,721
Tax effect of non-deductible expenses		**437**	142
Over-provision in respect of prior year		**–**	(37)
Others		**(28)**	62
Income tax expense for the year		**46,630**	39,888

Notes:

(i) The Company is subject to PRC EIT at the statutory rate of 25%. The consolidated structured entities are not subject to PRC EIT.

(ii) No provision for Hong Kong Profits Tax has been made for the Company and the consolidated structured entities as the Company and the consolidated structured entities have not derived any income subject to Hong Kong Profits Tax.

9 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2019				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Non-executive directors					
Duan Hongwei (段宏偉) (assigned on August 13, 2019)	–	–	–	–	–
Lou Yixiang (婁毅翔) (assigned on August 13, 2019)	–	–	–	–	–
Zhang Shuqing (張書清) (assigned on August 13, 2019)	–	–	–	–	–
Li Peng (李鵬)	–	–	–	–	–
Zhang Zhe (張哲) (resigned on August 13, 2019)	–	–	–	–	–
Yang Yanwen (楊彥文) (resigned on August 13, 2019)	–	–	–	–	–
Xu Junhua (許均華) (resigned on February 22, 2019)	–	–	–	–	–
Tian Anping (田安平) (resigned on August 13, 2019)	–	–	–	–	–
Chen Gang (陳剛) (resigned on August 13, 2019)	–	–	–	–	–
Dong Xiaoyu (董曉宇) (assigned on February 22, 2019 and resigned on August 13, 2019)	–	–	–	–	–
He Yuanping (何願平) (resigned on August 13, 2019)	–	–	–	–	–
Executive directors					
He Rongfeng (何融峰) (assigned on August 13, 2019)	–	290	–	–	290
Huang Wen (黃聞) (assigned on August 13, 2019)	–	212	–	–	212

9 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	2019				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Independent non-executive directors					
Cheng Dongyue (程東躍) (assigned on September 20, 2019)	–	–	–	–	–
Wu Tak Lung (吳德龍) (assigned on August 29, 2019)	–	–	–	–	–
Lin Zhen (林禎) (assigned on August 29, 2019)	–	–	–	–	–
Supervisors					
Zhang Jian (張健) (assigned on August 13, 2019)	–	–	–	–	–
Tian Anping (田安平) (assigned on August 13, 2019)	–	–	–	–	–
Fang Fang (方放) (assigned on August 13, 2019)	–	–	–	–	–
Long Limin (龍利民) |(assigned on August 13, 2019)	–	–	–	–	–
Tong Chao (佟超) (assigned on August 13, 2019)	–	234	–	–	234
Zhou Di (周迪) (assigned on August 13, 2019)	–	148	–	–	148
Han Nana (韓娜娜) (assigned on August 13, 2019)	–	132	–	–	132
Wei Tingquan (韋廷權) (resigned on August 13, 2019)	–	–	–	–	–
Chen Gang (陳剛) (resigned on August 13, 2019)	–	–	–	–	–
Liu Shouquan (劉守泉) (resigned on August 13, 2019)	–	606	300	–	906
Total	–	1,622	300	–	1,922

9 DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	2018				
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Non-executive directors					
Zhang Zhe (張哲)	–	–	–	–	–
Xu Junhua (許均華)	–	–	–	–	–
Yang Yanwen (楊彥文)	–	–	–	–	–
Tian Anping (田安平)	–	–	–	–	–
Zhang Wei (張維) (resigned on January 29, 2018)	–	–	–	–	–
Li Peng (李鵬) (assigned on January 29, 2018)	–	–	–	–	–
Chen Gang (陳剛)	–	–	–	–	–
He Yuanping (何願平)	–	–	–	–	–
Supervisors					
Wei Tingquan (韋廷權)	–	–	–	–	–
Chen Gang (陳剛)	–	–	–	–	–
Liu Shouquan (劉守泉)	–	510	340	–	850
Total	–	510	340	–	850

None of the non-executive directors or supervisors (except Liu Shouquan (劉守泉)) received any fees or emoluments in respect of their services to the Company as they were paid by the Company's shareholders.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, there were two directors (2018: nil) and one supervisor (2018: nil) of the Group for the year ended December 31, 2019, whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the other two (2018: five) individuals are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and benefits in kind	**1,344**	3,540
Discretionary bonuses	**600**	2,037
Total	**1,944**	5,577

The emoluments of the other individuals with the highest emoluments are all within the following bands:

	2019 **Number of individuals**	2018 Number of individuals
Nil – HKD1,000,000	**–**	–
HKD1,000,001 – HKD1,500,000	**2**	4
HKD1,500,001 – HKD2,000,000	**–**	1

11 BASIC AND DILUTED EARNINGS PER SHARE

	2019	2018
Profit attributable to equity shareholders of the Company (RMB'000)	**138,256**	118,996
Weighted average number of ordinary shares (in thousands)	**1,000,000**	1,000,000
Basic and diluted earnings per share attributable to equity shareholders of the Company (in RMB per share)	**0.14**	0.12

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding for the years ended December 31, 2019 and 2018.

Weighted average number of ordinary shares (in thousands)

	2019	2018
Weighted average number of ordinary shares at January 1, 2019 and December 31, 2019	**1,000,000**	1,000,000

12 OTHER COMPREHENSIVE INCOME

	2019			2018		
	Before-tax amount RMB'000	**Tax expense RMB'000**	**Net-of-Tax amount RMB'000**	Before-tax amount RMB'000	Tax expense RMB'000	Net-of-Tax amount RMB'000
Equity investments at FVOCI: net movement in fair value reserve (non-recycling)	**1,652**	**(413)**	**1,239**	1,399	(350)	1,049

13 PROPERTY AND EQUIPMENT

	Other properties leased for own use carried at cost RMB'000	Electronic equipment RMB'000	Office equipment RMB'000	Others RMB'000	Total RMB'000
Cost					
As at January 1, 2018	–	1,076	552	36	1,664
Additions	–	18	325	97	440
Disposals	–	(198)	(38)	–	(236)
As at December 31, 2018/January 1, 2019	–	896	839	133	1,868
Impact on initial application of IFRS 16 (Note i, ii, iii)	20,942	–	–	429	21,371
As at January 1, 2019	20,942	896	839	562	23,239
Additions	9,540	656	–	251	10,447
Disposals	–	(13)	(3)	(14)	(30)
As at December 31, 2019	30,482	1,539	836	799	33,656
Accumulated depreciation					
As at January 1, 2018	–	(764)	(351)	(26)	(1,141)
Charge for the year	–	(127)	(109)	(8)	(244)
Written back on disposals	–	188	32	–	220
As at December 31, 2018/January 1, 2019	–	(703)	(428)	(34)	(1,165)
Charge for the year	(9,563)	(148)	(109)	(351)	(10,171)
Written back on disposals	–	12	2	14	28
As at December 31, 2019	(9,563)	(839)	(535)	(371)	(11,308)
Net carrying amount					
As at December 31, 2019	20,919	700	301	428	22,348
As at December 31, 2018	–	193	411	99	703

13 PROPERTY AND EQUIPMENT (continued)

Notes:

(i) The Group applied IFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17, see Note 1(c).

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its office through tenancy agreements. The leases typically run for an initial period of 3 years.

(iii) Others

Others include certain leased cars for the Group's own use and under leases expiring from 5 to 36 months. None of the leases includes variable lease payments.

(iv) Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 20(b) and Note 22(b), respectively.

14 INTANGIBLE ASSETS

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Cost		
At the beginning of the year	**4,238**	2,601
Additions	**4,110**	1,637
At the end of the year	**8,348**	4,238
Accumulated amortisation		
At the beginning of the year	**(788)**	(394)
Charge for the year	**(1,166)**	(394)
At the end of the year	**(1,954)**	(788)
Carrying amount		
At the beginning of the year	**3,450**	2,207
At the end of the year	**6,394**	3,450

Intangible assets mainly represent software.

15 FINANCE LEASE RECEIVABLES

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Minimum finance lease receivables		
Not later than one year	**3,918,424**	3,135,638
Later than one year and not later than five years	**3,204,484**	2,823,651
Gross amount of finance lease receivables	**7,122,908**	5,959,289
Less: Unearned finance income	**(561,151)**	(473,645)
Net amount of finance lease receivables	**6,561,757**	5,485,644
Less: Allowances for impairment losses	**(137,630)**	(108,850)
Carrying amount of finance lease receivables	**6,424,127**	5,376,794
Present value of minimum finance lease receivables		
Not later than one year	**3,556,390**	2,838,774
Later than one year and not later than five years	**3,005,367**	2,646,870
Total	**6,561,757**	5,485,644

Analysis for reporting purpose as:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Non-current assets	**2,966,628**	2,635,559
Current assets	**3,457,499**	2,741,235
Total	**6,424,127**	5,376,794

15 FINANCE LEASE RECEIVABLES (continued)

The finance lease receivables with net amount of approximately RMB2,487.9 million and RMB1,958.9 million were pledged as collaterals for the Group's loan borrowings as at December 31, 2019 and 2018, respectively (see Note 21(ii)).

The finance lease receivables with net amount of approximately RMB1,094.8 million and RMB547.2 million were pledged as collaterals for the Group's asset-backed securities as at December 31, 2019 and 2018, respectively (see Note 21(iii)).

Finance lease receivables are mainly secured by leased assets, lessees' deposits and leased assets repurchase arrangement where applicable.

Lessees' deposits are calculated and collected based on a certain percentage of the entire value of the lease contract. The deposits are returned to the lessees in full by end of lease period according to the terms of the lease contracts. The balance of the customers' deposits can also be applied and used to settle any outstanding lease payments for the corresponding lease contracts. As at December 31, 2019, the lessees' deposits of RMB962.3 million were pledged for related finance lease receivables (December 31, 2018: RMB773.4 million), see Note 22.

(a) Finance lease receivables and allowances for impairment losses:

	December 31, 2019			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Net amount of finance lease receivables	6,074,976	74,616	412,165	6,561,757
Less: Allowances for impairment losses	(25,391)	(2,422)	(109,817)	(137,630)
Carrying amount of finance lease receivables	6,049,585	72,194	302,348	6,424,127

15 FINANCE LEASE RECEIVABLES (continued)

(a) Finance lease receivables and allowances for impairment losses: (continued)

	December 31, 2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Net amount of finance lease receivables	5,087,000	95,001	303,643	5,485,644
Less: Allowances for impairment losses	(18,185)	(3,336)	(87,329)	(108,850)
Carrying amount of finance lease receivables	5,068,815	91,665	216,314	5,376,794

(b) Changes in allowance for impairment losses of finance lease receivables are as follows:

	2019			
	12-month ECL RMB'000	**Lifetime ECL not credit-impaired RMB'000**	**Lifetime ECL credit-impaired RMB'000**	**Total RMB'000**
Balance at January 1, 2019	**18,185**	**3,336**	**87,329**	**108,850**
Transfer:				
– to 12-month ECL	**36**	**–**	**(36)**	**–**
– to lifetime ECL not credit-impaired	**(359)**	**359**	**–**	**–**
– to lifetime ECL credit-impaired	**(757)**	**(3,211)**	**3,968**	**–**
Charge	**8,286**	**1,938**	**18,556**	**28,780**
Balance at December 31, 2019	**25,391**	**2,422**	**109,817**	**137,630**

15 FINANCE LEASE RECEIVABLES (continued)

(b) Changes in allowance for impairment losses of finance lease receivables are as follows: (continued)

	2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Balance at January 1, 2018	21,391	–	60,423	81,814
Transfer:				
– to lifetime ECL not credit-impaired	(593)	593	–	–
– to lifetime ECL credit-impaired	(546)	–	546	–
(Reversal)/charge	(2,067)	2,743	26,360	27,036
Balance at December 31, 2018	18,185	3,336	87,329	108,850

16 FINANCIAL ASSETS AT FVOCI

	Notes	**December 31, 2019 RMB'000**	December 31, 2018 RMB'000
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity securities	(i)	**11,026**	9,374

Notes:

(i) The unlisted equity securities are shares in Beijing Zhongguancun Synergetic Innovation Investment Fund Management Co., Ltd. (北京中關村協同創新投資基金管理有限公司), a company established in the PRC and engaged in investment management. The Group designated this investment at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends were received on this investment in 2019.

(Expressed in RMB unless otherwise indicated)

17 INTEREST IN ASSOCIATES

The following list contains the particulars of associates, all of which are unlisted corporate entities or partnerships whose quoted market price is not available:

Proportion of ownership interest

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Principal activity
Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd. (北京中諾同創投資基金管理有限公司, "**Beijing Zhongnuo**")	Incorporated	PRC	RMB1.6 million	39%	39%	Investment management
Jiangsu Zhongguancun Zhongnuo Xietong Investment Fund (Limited Partnership) (江蘇中關村中諾協同投資基金合夥企業(有限合夥), "**Jiangsu Zhongnuo**"))	Partnership	PRC	RMB100.0 million	49%	49%	Investment management

Beijing Zhongnuo was established in the PRC on April 23, 2019, of which the registered capital was RMB10.0 million. Jiangsu Zhongnuo was established in the PRC on November 11, 2019, of which the registered capital was RMB200.0 million. These investments enabled the Group to carry out investment management activities in the PRC.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

17 INTEREST IN ASSOCIATES (continued)

Summarized financial information of the associates reconciled to the carrying amounts in the consolidated financial statements are disclosed below:

	Beijing Zhongnuo 2019 RMB'000	Jiangsu Zhongnuo 2019 RMB'000
Gross amount of the associate		
Total assets	1,006	100,000
Total liabilities	(84)	–
Net assets	922	100,000
Revenue	–	–
Loss for the year	(678)	–
Reconciled to the Group's interests in the associates		
Gross amounts of net assets of the associate	922	100,000
Group's effective interest	39%	49%
Group's share of net assets of the associate	515	49,000
Carrying amount in the consolidated financial statements	515	49,000

18 OTHER ASSETS

	Notes	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Non-current assets			
Other assets		**16**	57
Current assets			
Deductible value-added tax (VAT)		**107,614**	148,266
Prepaid listing expenses		**17,835**	–
Notes receivable		**4,148**	26,598
Advance payments		**4,079**	29,961
Due from related parties	26(c)	**2,955**	3,064
Other receivables		**1,637**	636
		138,268	208,525
Total		**138,284**	208,582

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Income tax payable

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
At the beginning of the year	**12,397**	19,266
Provision for income tax for the year	**54,469**	45,376
Over-provision in respect of prior year	**–**	(37)
Income tax paid	**(52,372)**	(52,208)
At the end of the year	**14,494**	12,397

19 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements for the years ended December 31, 2019 and 2018 are as follows:

Deferred tax arising from:	Revaluation of FVOCI RMB'000	Revenue with EIT paid in prior years RMB'000	Allowance for impairment losses RMB'000	Accrued staff costs RMB'000	Total RMB'000
January 1, 2018	(1,243)	11,624	20,713	–	31,094
Credited to profit or loss	–	(1,390)	6,841	–	5,451
Charged to other comprehensive income	(350)	–	–	–	(350)
December 31, 2018/January 1, 2019	(1,593)	10,234	27,554	–	36,195
Charged to profit or loss	–	(4,081)	6,942	4,978	7,839
Charged to other comprehensive income	(413)	–	–	–	(413)
December 31, 2019	**(2,006)**	**6,153**	**34,496**	**4,978**	**43,621**

20 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Cash on hand	**5**	2
Deposits with banks	**252,101**	306,618
Cash and cash equivalents	**252,106**	306,620

20 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Lease liabilities RMB'000	Interest payable RMB'000	Total RMB'000
As at 1 January 2018	2,612,265	–	21,915	2,634,180
Changes from financing cash flow:				
Proceeds from borrowings	2,378,638	–	–	2,378,638
Repayment of borrowings	(1,670,369)	–	–	(1,670,369)
Interest paid	–	–	(144,252)	(144,252)
Other borrowing costs paid	(5,261)	–	–	(5,261)
Other changes:				
Other borrowing costs	5,261	–	–	5,261
Interest adjustment	(787)	–	148,319	147,532
As at 31 December 2018	3,319,747	–	25,982	3,345,729
Impact on initial application of IFRS 16 (Note)	–	21,371	–	21,371

20 CASH AND CASH EQUIVALENTS (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Borrowings RMB'000	Lease liabilities RMB'000	Interest payable RMB'000	Total RMB'000
As at 1 January 2019	3,319,747	21,371	25,982	3,367,100
Changes from financing cash flows:				
Capital element of lease rentals paid	–	(13,648)	–	(13,648)
Proceeds from borrowings	3,950,811	–	–	3,950,811
Repayment of borrowings	(3,111,229)	–	–	(3,111,229)
Interest element of lease rentals paid	–	(1,040)	–	(1,040)
Interest paid	–	–	(203,443)	(203,443)
Other borrowing costs paid	(8,573)	–	–	(8,573)
Other changes:				
Increase in lease liabilities from entering into new leases during the year	–	9,791	–	9,791
Interest expense	–	1,040	196,251	197,291
Other borrowing costs	8,573	–	–	8,573
Interest adjustment for asset-backed securities	(947)	–	–	(947)
As at 31 December 2019	4,158,382	17,514	18,790	4,194,686

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See Note 1(c).

20 CASH AND CASH EQUIVALENTS (continued)

(c) Total cash outflow for leases

Amounts included in the consolidated statements of cash flow for leases comprise the following:

	2019 RMB'000	2018 (Note) RMB'000
Within operating cash flows	1,065	9,477
Within financing cash flows	14,688	–
	15,753	9,477

Note: The Group has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach and adjusted the opening balances at January 1, 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB9.5 million were classified as operating activities in the consolidated statements of cash flow. Under IFRS 16, except for short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of lease liabilities, all other rentals paid on leases are now split into capital element and interest element (see Note 20(b)) and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to IFRS 16 are set out in Note 1(c).

21 BORROWINGS

	Notes	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Bank loans			
– collateralised	(i)	–	7,000
– pledged	(ii)	1,272,332	616,445
– unsecured		611,800	790,707
Borrowings from related parties			
– pledged	(ii)	1,200,000	1,318,000
Asset-backed securities	(iii)	1,074,250	587,595
		4,158,382	3,319,747

21 BORROWINGS (continued)

Analysis for reporting purpose as:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Non-current liabilities	**1,508,706**	1,056,629
Current liabilities	**2,649,676**	2,263,118
	4,158,382	3,319,747

Notes:

(i) As at December 31, 2019, no loans were collateralized by financing leasing equipment (December 31, 2018: RMB7.0 million).

(ii) As at December 31, 2019, loans amounting to RMB2,472.3 million were pledged by finance lease receivables (December 31, 2018: RMB1,934.4 million) (see Note 15).

(iii) On August 6, 2019, the Company issued asset-backed securities with two tranches: senior tranche Class A with principal amount of RMB760.0 million, coupon rate of 5.35% and an expected maturity date on August 5, 2022; senior tranche Class B with principal amount of RMB210.0 million, coupon rate of 4.70% and an expected maturity date on August 5, 2022; junior tranche with principal amount of RMB30.0 million and an expected maturity date on August 5, 2024. The Company holds all junior tranche asset-backed securities.

On October 26, 2018, the Company issued asset-backed securities with two tranches: senior tranche Class A with principal amount of RMB489.0 million, coupon rate of 5.80% and an expected maturity date on January 21, 2020; senior tranche Class B with principal amount of RMB142.0 million, coupon rate of 6.70% and an expected maturity date on October 21, 2020; junior tranche with principal amount of RMB50.0 million and an expected maturity date on October 21, 2020. The Company holds senior tranche Class B asset-backed securities with amount of RMB42.0 million and all junior tranche asset-backed securities.

As at December 31, 2019, the borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**2,649,676**	2,263,118
After 1 year but within 2 years	**1,340,122**	453,222
After 2 years but within 5 years	**168,584**	603,407
	4,158,382	3,319,747

21 BORROWINGS (continued)

The ranges of contractual interest rates on the borrowings are as follows:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Range of interest rates:	**4.15% – 5.70%**	4.35% – 7.00%

22 TRADE AND OTHER LIABILITIES

	Notes	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Current liabilities			
Guaranteed deposits from lessees		**315,782**	234,371
VAT to be collected in the following period		**92,325**	108,440
VAT payable and other tax payable		**844**	353
Accounts payable		**82,786**	86,383
Notes payable		**93,760**	137,289
Accrued staff costs		**21,820**	14,063
Receipts in advance		**1,653**	38,271
Interest payable		**18,790**	25,982
Lease liabilities	22(b)	**8,856**	–
Other payables		**3,359**	5,111
		639,975	650,263
Non-current liabilities			
Guaranteed deposits from lessees		**646,548**	538,996
VAT to be collected in the following period		**55,533**	94,212
Deferred revenue		**72,784**	64,213
Provision for credit commitments	22(a)	**355**	1,367
Lease liabilities	22(b)	**8,658**	–
		783,878	698,788
Total		**1,423,853**	1,349,051

22 TRADE AND OTHER LIABILITIES (continued)

(a) Provision for credit commitments

	2019			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Balance at January 1, 2019	**1,367**	**–**	**–**	**1,367**
Reversal	**(1,012)**	**–**	**–**	**(1,012)**
Balance at December 31, 2019	**355**	**–**	**–**	**355**

	2018			
	12-month ECL RMB'000	Lifetime ECL not credit-impaired RMB'000	Lifetime ECL credit-impaired RMB'000	Total RMB'000
Balance at January 1, 2018	1,039	–	–	1,039
Charge	328	–	–	328
Balance at December 31, 2018	1,367	–	–	1,367

22 TRADE AND OTHER LIABILITIES (continued)

(b) Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at December 31, 2019 and at the date of transition to IFRS 16:

	January 1, 2019 (Note)		December 31, 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	6,827	7,646	8,856	9,667
After 1 year but within 2 years	12,082	12,479	4,866	5,164
After 2 years but within 5 years	2,462	2,490	3,792	3,962
	21,371	22,615	17,514	18,793
Less: total future interest expenses		(1,244)		(1,279)
Present value of lease liabilities		21,371		17,514

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Further details on the impact of the transition to IFRS 16 are set out in Note 1(c).

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share/ paid-in capital RMB'000 23(b)	Capital reserve RMB'000 23(c)	Surplus reserve RMB'000 23(d)(i)	Fair value reserve RMB'000 23(d)(ii)	General reserve RMB'000 23(d)(iii)	Retained profits RMB'000	Total equity RMB'000
At January 1, 2018	1,000,000	–	32,941	3,731	18,798	146,989	1,202,459
Changes in equity for 2018							
Profit for the year	–	–	–	–	–	119,246	119,246
Other comprehensive income	–	–	–	1,049	–	–	1,049
Total comprehensive income	–	–	–	1,049	–	119,246	120,295
Appropriation to statutory reserve	–	–	12,455	–	–	(12,455)	–
Appropriation to general reserve	–	–	–	–	24,909	(24,909)	–
Dividends approved in respect of the previous years	–	–	–	–	–	(35,000)	(35,000)
At December 31, 2018/ January 1, 2019	1,000,000	–	45,396	4,780	43,707	193,871	1,287,754
Changes in equity for 2019							
Profit for the year	**–**	**–**	**–**	**–**	**–**	**138,143**	**138,143**
Other comprehensive income	**–**	**–**	**–**	**1,239**	**–**	**–**	**1,239**
Total comprehensive income	**–**	**–**	**–**	**1,239**	**–**	**139,143**	**139,382**
Appropriation to statutory reserve	**–**	**–**	**13,814**	**–**	**–**	**(13,814)**	**–**
Dividends approved in respect of the previous years	**–**	**–**	**–**	**–**	**–**	**(35,000)**	**(35,000)**
Conversion into joint stock company	**–**	**252,761**	**(45,396)**	**(4,780)**	**(43,707)**	**(158,878)**	**–**
At December 31, 2019	**1,000,000**	**252,761**	**13,814**	**1,239**	**–**	**124,322**	**1,392,136**

Note: The Group, including the Company, has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See Note 1(c) and Note 27.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Share/paid-in capital

The Company was established in Beijing, the PRC on November 27, 2012, with a registered capital of RMB500.0 million. All equity shareholders made the full capital contributions for which they subscribed in three instalments before May 1, 2013.

On June 9, 2017, the Company's equity shareholders convened the third extraordinary meeting for 2017 and decided on a capital increase of RMB500.0 million in proportion to the equity shareholders' initial paid-in capital contribution. The registered capital of the Company was therefore increased to RMB1.0 billion.

On August 16, 2019, the Company was converted into a joint stock company and was renamed to Zhongguancun Science-Tech Leasing Co., Ltd.

(c) Capital reserve

On August 16, 2019, the Company was converted into a joint stock company and was renamed to Zhongguancun Science-Tech Leasing Co., Ltd. The audited net assets of the Company were RMB1,287.8 million as at December 31, 2018, of which RMB1,000.0 million was converted into 1,000.0 million shares of the joint stock company with a par value of RMB1.0 per share, RMB35.0 million was recorded as the retained profits of the Company which was used for the dividends distribution in respect of 2018, and RMB252.8 million was transferred to the capital reserve of the Company.

(d) Reserves

(i) Surplus reserve

The Company is required to appropriate 10% of its net profit, as determined under the China Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC ("**MOF**"), to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of equity shareholders of the Company, statutory surplus reserve may be used to net off against accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before capitalisation.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Reserves (continued)

(i) Surplus reserve (continued)

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its net profit to the discretionary surplus reserve upon approval by equity shareholders.

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the reporting period (see Note 1(i)).

(iii) General reserve

According to the resolution of the meeting of board of directors, the Company elected to appropriate 20% of its net profit, as determined under the China Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF, to a general risk reserve starting in the year 2017 until the reserve accumulatively reaches an amount equal to 1.5% of the ending balance of the Company's leased assets.

On August 16, 2019, the Company was converted into a joint stock company and amended the Articles of Association. According to the amended Articles of Association, there is no requirement for the Company to appropriate its net profit to general reserve in future.

(e) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

According to the proposal of the meeting of board of directors dated March 30, 2020, the profit distributed in cash by the Company to its equity shareholders amounted to RMB50.0 million (2018: RMB35.0 million). The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Dividends (continued)

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

Final dividend in respect of the previous financial year, approved and paid during the 2019 was RMB35.0 million (2018: RMB35.0 million).

(f) Capital management

The Group's main objective of capital management is to ensure a stable capital ratio to support the Group's business development and maximise equity shareholders' value.

The Group assesses and manages its capital structure with the aim of striking a balance between achieving higher equity shareholders returns through debt financing and ensuring capital security through equity financing, and the Group adjusts the capital structure based on changes in external economic conditions.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, market and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practice used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk is the risk that the Group will suffer losses due to a lessee's failure to fulfil contractual obligations. Credit risk is the most significant risk faced by the Group in the course of its operating activities. The credit risk exposure is managed based on the principle of prudence. The Group's credit risk is primarily attributable to its finance leasing business.

The Group's exposure to credit risk arising from cash and cash equivalents, pledged and restricted deposits, and notes receivable is limited because the counterparties are banks and financial institutions, of which the Group considers to have low credit risk. The Group does not provide any guarantees which would expose the Group to credit risk.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

The Group's maximum exposure to credit risk before collateral held and other credit enhancement is as follows:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Cash and cash equivalents	**252,106**	306,620
Pledged and restricted deposits	**41,564**	27,238
Finance lease receivables	**6,561,757**	5,485,644
Financial assets at FVOCI	**11,026**	9,374
Notes and other receivables	**8,740**	30,298
Total	**6,875,193**	5,859,174

The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 25(a).

(i) Finance Lease receivables credit risk management

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2019, 1.98% of the total net amounts of finance lease receivables was due from the Group's largest customer (December 31, 2018: 2.56%), and 7.32% of the total net amounts of finance lease receivables was due from the Group's five largest customers (December 31, 2018: 9.53%).

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(i) Finance Lease receivables credit risk management (continued)

The Group performs standardised management throughout the entire finance lease business processes, including investigation of and application for finance lease projects, due diligence, review and approval of lease projects, release of finance lease funds, post-lease monitoring, and management of bad and doubtful financial lease receipts. The Group also identifies, monitors and manages potential credit risks throughout its operations with its five-tier risk grading system, policies and procedures related to credit risk management, leasing business information system, management of the investment direction of its leasing business and optimising the structure of its leasing assets.

Changes in the economic environment or the distribution of a particular industry of finance lease assets in the Group's asset portfolio may cause losses to the Group. Credit risk exposure in the balance sheet is associated primarily with finance lease receivables. The Group's credit risk is managed by the Engagement Evaluation Department, Risk Management Department, Asset Management Department and the Evaluation Committee.

(ii) Risk limits management and mitigation measures

The Group monitors credit risk limits on a regular basis, manages, limits, and controls the concentration of credit risk it identifies, particularly in industries, regions, and single customers.

To optimise the credit risk structure, the Group identifies the direction of its leasing business and sets limits for industries, regions and single lessees with reference to global economic developments, industry trends and corporate strategic objectives. The Group controls the set-up of leasing projects according to the industry's and region's risk levels.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(ii) Risk limits management and mitigation measures (continued)

Other specific management and mitigation measures include:

Guarantee: To make credit risk management more efficient, the Group uses different approaches to mitigate credit risk, including obtaining collaterals/pledges, deposits, and guarantees from guarantors.

For the finance lease business, the Group requires different approaches to guarantees based on the lessee's credit status, the risk level of the finance lease business and the characteristics of each guarantee category. The Group also requires an assessment of the guarantor's financing capacity, the ownership and value of collaterals and pledges, and the feasibility of realising the collateral and the pledge. If a finance lease is guaranteed by a third party, the Group will assess the guarantor's financial status, credit condition and solvency.

Insurance: For the finance lease business, the title will be owned by the Group during the lease period, but the risks and benefits associated with the operation and maintenance will be transferred to the lessee. Therefore, if a covered accident occurs during the lease period, the lessee must immediately report it to the related insurance company and notify the Group, provide reasons and related materials to the Group for the accident, and file claims against the insurance company in a timely manner in conjunction with the Group.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(ii) Risk limits management and mitigation measures (continued)

Concentration risk of credit exposure

An analysis of gross amount of finance lease receivables by industry is set out below:

	December 31, 2019		December 31, 2018	
	RMB'000	**%**	RMB'000	%
ECO – solutions	**2,176,650**	**31%**	1,604,533	27%
Intelligent manufacturing	**1,453,923**	**20%**	1,241,422	21%
Life sciences & healthcare	**1,436,356**	**20%**	1,156,613	19%
Big data	**1,041,445**	**15%**	1,085,335	18%
Internet-based products & services	**795,211**	**11%**	702,231	12%
Others	**219,323**	**3%**	169,155	3%
Total	**7,122,908**	**100%**	5,959,289	100%

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(ii) Risk limits management and mitigation measures (continued)

Concentration risk of credit exposure (continued)

An analysis of gross amount of finance lease receivables by area is set out below:

	December 31, 2019		December 31, 2018	
	RMB'000	%	RMB'000	%
North China	3,785,324	53%	3,861,227	65%
East China	1,190,218	17%	885,613	15%
Central China	840,651	12%	523,114	9%
South China	517,622	7%	241,691	4%
Northwest	397,751	6%	216,759	4%
Southwest	214,432	3%	86,589	1%
Northeast	176,910	2%	144,296	2%
Total	7,122,908	100%	5,959,289	100%

The overall ECL rate for finance lease receivables are summarized as follows:

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables	0.42%	3.25%	26.64%	2.10%

	December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
Finance lease receivables	0.36%	3.51%	28.76%	1.98%

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(a) Credit risk (continued)

(ii) Risk limits management and mitigation measures (continued)

Concentration risk of credit exposure (continued)

An analysis of finance lease receivables by credit quality is set out below:

	December 31, 2019 RMB'000	December 31, 2018 RMB'000
12-month ECL balance	**6,074,976**	5,087,000
Lifetime ECL not credit-impaired balance		
– Not overdue	**10,725**	10,083
– Less than 1 month (inclusive)	**22,967**	63,306
– 1 to 3 months (inclusive)	**40,924**	21,612
Lifetime ECL credit-impaired	**412,165**	303,643
Net amount of finance lease receivables	**6,561,757**	5,485,644
Less: Allowances for impairment losses	**(137,630)**	(108,850)
Total	**6,424,127**	5,376,794

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Market risk

Market risk arises when the adverse changes in market prices (interest rates, exchange rates, as well as equity prices and other prices) lead to losses from the Group's business. The Group's market risk mainly arises from currency risk and interest rate risk.

(i) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The directors consider the Group's exposure to foreign currency risk is not significant for 2019 as the Group does not hold any foreign currency balance at the end of the reporting period.

(ii) Interest rate risk

The risk of changes in the cash flow of financial instruments caused by the Group's interest rate changes is mainly related to financial lease. The Group's interest rate risk arises from the mismatch between the maturity date of interest-generating assets and interest-bearing liabilities and the contract repricing date. Interest margin of the Group may increase due to the change of market interest rate, Interest margin of the Group may even decrease or even loss due to their unpredictability.

The Group adopts the following measures to manage its interest rate risk:

- Optimises the time difference between the maturity dates of interest-generating assets and interest-bearing liabilities and the contract repricing date; and

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

- Managing the difference between the pricing of interest-generating assets and interest-bearing liabilities and the benchmark interest rate of the People's Bank of China.

The sensitivity of the Group to the interest rate risk of financial instruments is based on the assumption that the reasonable changes in the interest rate risk borne by the financial instruments at the balance sheet date during the following year shall remain constant throughout the year. The following shows the impact of the structure of financial assets and financial liabilities at the balance sheet date on the Group's after-tax profits and owners' equity, with a general increase or decrease of 100 basis points in interest rates, and all other variables held constant:

The following table illustrates the potential impact of a parallel upward or downward shift of 100 basis points in all financial instruments' yield rate on the Group's retained profits, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of at December 31, 2019.

	2019 **RMB'000**	2018 RMB'000
Retained profits		
+ 100 basis points	**6,099**	5,595
– 100 basis points	**(6,099)**	(5,595)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk

Management regularly monitors the Group's liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. The following tables show the remaining contractual maturities at the end of the each reporting period of the Group's financial assets and financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

	Indefinite/ overdue/ on demand RMB'000	Within 1 month RMB'000	1 to 3 months RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
December 31, 2019							
Cash and cash equivalent	252,106	–	–	–	–	–	252,106
Pledged and restricted deposits	–	–	–	41,564	–	–	41,564
Finance lease receivables	352,286	256,904	710,502	2,598,732	3,204,484	–	7,122,908
Financial assets at FVOCI	11,026	–	–	–	–	–	11,026
Others assets – notes and other receivables	1,853	1,321	2,540	45	2,981	–	8,740
Total financial assets	617,271	258,225	713,042	2,640,341	3,207,465	–	7,436,344
Borrowings	–	183,405	471,320	2,156,184	1,569,945	–	4,380,854
Trade and other liabilities	83,039	2,200	41,560	373,615	714,607	–	1,215,021
Lease liabilities	–	25	50	9,592	9,126	–	18,793
Total financial liabilities	83,039	185,630	512,930	2,539,391	2,293,678	–	5,614,668
Net exposure	534,232	72,595	200,112	100,950	913,787	–	1,821,676

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Liquidity risk (continued)

	Indefinite/ overdue/ on demand RMB'000	Within 1 month RMB'000	1 to 3 months RMB'000	3 months to 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
December 31, 2018							
Cash and cash equivalent	306,621	–	–	–	–	–	306,621
Pledged and restricted deposits	–	–	–	27,237	–	–	27,237
Finance lease receivables	245,653	180,999	602,312	2,106,674	2,823,651	–	5,959,289
Financial assets at FVOCI	9,374	–	–	–	–	–	9,374
Others assets – notes and other receivables	233	–	1,065	25,707	3,293	–	30,298
Total financial assets	561,881	180,999	603,377	2,159,618	2,826,944	–	6,332,819
Borrowings	–	233,134	150,062	2,022,865	1,138,506	–	3,544,567
Trade and other liabilities	26,353	10,374	57,161	794,328	174,802	3,347	1,066,365
Total financial liabilities	26,353	243,508	207,223	2,817,193	1,313,308	3,347	4,610,932
Net exposure	535,528	(62,509)	396,154	(657,575)	1,513,636	(3,347)	1,721,887

(d) Fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Expressed in RMB unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Fair values (continued)

	December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVOCI	**–**	**–**	**11,026**	**11,026**

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI	–	–	9,374	9,374

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The following table presents the related valuation techniques and inputs of the major financial instruments in Level 3.

Financial assets/liabilities	**Fair value hierarchy**	**Valuation Technique(s) and Key inputs**	**Significant Unobservable Input(s)**	**Relationship of unobservable input(s) to fair value**
Unlisted equity securities	Level 3	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value

The fair value of unlisted equity instruments is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of market ability.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) Fair values (continued)

Information about Level 3 fair value measurements (continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2019 RMB'000	2018 RMB'000
Unlisted equity securities:		
At the beginning of the year	**9,374**	7,975
Net unrealised gains or losses recognised in other comprehensive income during the year	**1,652**	1,399
At the end of the year	**11,026**	9,374

25 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's non-cancellable credit commitments are primarily finance leases that have been contracted, but not provided for. As at December 31, 2019, the Group's non-cancellable lease commitments amounted to RMB60.8 million (December 31, 2018: RMB248.5 million).

(b) Capital commitments

As at December 31, 2019, the unpaid capital investment against Beijing Zhongnuo and Jiangsu Zhongnuo was RMB3.1 million and RMB49.0 million (December 31, 2018: nil), respectively.

25 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Operating lease commitments

As at December 31, 2018, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	December 31, 2018 RMB'000
Within one year (inclusive)	8,308
After one year but within five years (inclusive)	16,243
Total	24,551

The Group is the lessee in respect of property and equipment held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at January 1, 2019 to recognise lease liabilities relating to these leases (see Note 1(c)). From January 1, 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statements of financial position and statement of financial position in accordance with the policies set out in Note 1(h), and the details regarding the Group's future lease payments are disclosed in Note 22(b).

(d) Contingent liabilities in respect of legal claim

As at December 31, 2019 and 2018, there were no outstanding legal proceedings against the Group.

26 MATERIAL RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties

Name of the entities	Relationship
Zhongguancun Development Group Co., Ltd.* (中關村發展集團股份有限公司)	Controlling shareholder
Beijing Zhongguancun Frontier Technology Industry Development Co., Ltd.* (北京中關村前沿技術產業發展有限公司)	A company controlled by the same ultimate controlling party
Beijing Zhongguancun Life Science Park Biomedical Technology Incubation Co., Ltd.* (北京中關村生命科學園生物醫藥科技孵化有限公司)	A company controlled by the same ultimate controlling party
Beijing Pioneer Precision Medical and Health Industry Investment Co., Ltd.* (北京領創精準醫療健康產業投資有限公司)	A company significantly impacted by the controlling shareholder
Beijing Haikai Real Estate Group Co., Ltd.* (北京海開房地產集團有限責任公司)	A company controlled by the same ultimate controlling party
Beijing Zhongnuo Tongchuang Investment Fund Management Co., Ltd.* (北京中諾同創投資基金管理有限公司)	An associate of the Company

* The English translation of the names of these entities is for reference only. The official names of the entities are in Chinese.

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Transaction amounts with related parties:

	2019 RMB'000	2018 RMB'000
Trade related		
Interest income from leases to a related party	636	937
Advisory fee income from related parties	906	516
Security deposits from a related party	–	912
Provision of finance lease to a related party	–	9,119
Repayment of finance lease receivable from a related party	4,703	3,857
Non-trade related		
Borrowing related		
Repayment of borrowings from related parties	718,000	496,000
Borrowings from a related party	600,000	318,000
Interest expenses arising from borrowings from related parties	68,131	69,173
Payment of guarantee fee to a related party	1,458	–
Lending related		
Lending to a related party	317,742	307,381
Repayment from a related party	317,696	307,148
Interest income from a related party	105	244
Others		
Payment for the lease of house rental, property management and parking fee to a related party	14,635	4,955
Repayment other receivables from related parties	277	180
Payment of other receivables of related parties	1,299	2,831
Payment of other payables of a related party	18	–

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) The balances of transactions with related parties:

	Notes	December 31, 2019 RMB'000	December 31, 2018 RMB'000
Trade related			
Finance lease receivable from a related party		**8,364**	12,304
Security deposits payable to a related party		**1,585**	1,585
Non-trade related			
Borrowing related			
Borrowings payable to a related party	(i)	**1,200,000**	1,318,000
Interest payable to a related party	(ii)	**14,984**	19,546
Lending related			
Due from a related party	(iii)	**280**	233
Lease prepayment to a related party	(iv)	**3,123**	–
Guarantee related			
Balance of guarantees received from a related party		**246,322**	–
Others			
Deposits for rental	(v)	**2,674**	2,674
Other receivables from a related party		**1**	157
Payable to a related party		**–**	18

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) The balances of transactions with related parties: (continued)

Notes:

(i) As at December 31, 2019, these represent short-term borrowings of RMB600.0 million and long-term borrowings of RMB600.0 million from Zhongguancun Development Group Co., Ltd. These borrowings will be due on November 19, 2020 and August 11, 2022, respectively.

(ii) As at December 31, 2019, this represents interest payable to Zhongguancun Development Group Co., Ltd., which will be due within one year.

(iii) As at December 31, 2019, this represents amounts due from Zhongguancun Development Group Co., Ltd., which will be settled within one year.

(iv) As at December 31, 2019, this represents lease prepayment to Zhongguancun Development Group Co., Ltd., which will be due within one year.

(v) As at December 31, 2019, this represents deposits for rental to Zhongguancun Development Group Co., Ltd., which will be due within four years.

(d) Transactions with key management personnel

	2019	2018
	RMB'000	RMB'000
Key management personnel remuneration	**7,140**	5,015

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	December 31, 2019 RMB'000	December 31, 2018 (Note) RMB'000
Non-current assets		
Property and equipment	22,348	703
Intangible assets	6,394	3,450
Finance lease receivables	2,966,628	2,635,559
Financial assets at fair value through other comprehensive income	11,026	9,374
Interest in associates	49,515	–
Other assets	16	57
Deferred tax assets	43,621	36,195
	3,099,548	2,685,338
Current assets		
Finance lease receivables	3,457,499	2,741,235
Other assets	138,840	208,525
Pledged and restricted deposits	40,872	27,238
Cash and cash equivalents	252,106	306,613
	3,889,317	3,283,611
Current liabilities		
Borrowings	2,649,676	2,263,118
Income tax payable	14,494	12,397
Trade and other liabilities	639,975	650,263
	3,304,145	2,925,778
Net current assets	585,172	357,833
Total assets less current liabilities	3,684,720	3,043,171
Non-current liabilities		
Borrowings	1,508,706	1,056,629
Trade and other liabilities	783,878	698,788
	2,292,584	1,755,417
NET ASSETS	1,392,136	1,287,754

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	December 31, 2019	December 31, 2018 (Note)
	RMB'000	RMB'000
CAPITAL AND RESERVES		
Paid-in capital	**1,000,000**	1,000,000
Reserves	**392,136**	287,754
TOTAL EQUITY	**1,392,136**	1,287,754

Approved and authorised for issue by the board of directors on March 30, 2020.

DUAN Hongwei	**HE Rongfeng**
Chairman	*General manager*

Note: The Company has initially applied IFRS 16 at January 1, 2019, using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 1(c).

28 CONSOLIDATED STRUCTURED ENTITIES

In the course of its ordinary activities, the Group enters into asset securitisation transactions and transfers the finance receivables to special purpose entities, which are structured entities created to provide opportunities for investors to invest in the finance lease receivables. Where a structured entity conducts activities according to contractual arrangements, the voting rights in it are not one of the main factors to consider in assessing whether the Group controls the structured entity. The Group obtains control over a structured entity when it involves itself in the entity's operations and is exposed to variable returns from such involvement, and when it has the ability to affect those returns through its power over the structured entity. In this case, the Group includes the structured entities in its consolidation scope.

As at December 31, 2019, the number of consolidated structured entities of the Group was two (December 31, 2018: one). As at December 31, 2019, the total assets of the consolidated structured entities amounted to RMB1,198.6 million (December 31, 2018: RMB681.0 million).

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) The Coronavirus Disease 2019 ("COVID-19") outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include: assessing the quality of financial lease receivables and liaising with high-risk lessees; negotiating with lessees on rent payment schedule, etc. The Group will keep the contingency measures under review as the situation evolves.

As for the business of the Group, as of the reporting date, no significant adverse impact of the COVID-19 outbreak has been found. The actual impacts may differ from these estimates as situation continues to evolve and further information may become available.

(b) On January 21,2020, the Company initial public offered 333,334,000 H Shares (nominal value RMB1.00 per H Share) on the Hong Kong Stock Exchange at a price of HK$1.52 per H Share. Following the completion of the initial public offering, the Company's registered share capital includes 1,000,000,000 Domestic Shares and 333,334,000 H Shares.

(c) The Company's profit distribution plan is detailed in Note 23(e).

(Expressed in RMB unless otherwise indicated)

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2019, the directors consider the immediate parent and ultimate controlling party of the Group to be Zhongguancun Development Group Co., Ltd. (中關村發展集團股份有限公司).

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended December 31, 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	January 1, 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	January 1, 2020

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.